THE FREEMAN

IDEAS ON LIBERTY

Rustic, U.S.A.

Philanthropy in a Cold Climate

The Dark Lessons of Utopia

Reducing Regulation of the Defense Industry

FEBRUARY 1992

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IDEAS ON LIBERTY

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Socialized Medicine

Some years ago, I sat in on a discussion the late Dr. Ben Rogge was having with some college students. He was then professor of economics at Wabash College in Indiana.

A student asked, "Dr. Rogge, don't you believe we should have a national health-service program of some sort?"

Rogge smiled and asked the student, "What do you have against sick people? Would you visit on them the same quality of services we have seen come from other government-run programs or systems?"

He mentioned a few of the more glaring examples of waste and inefficiencies at that time.

Rogge's point should be easy enough for everyone to understand, whether it be applied to medicine or any other service in our life for which we rely upon good, competent, efficient people.

—DAN OST, writing in the
September 25, 1991, issue of the
Reading Times, Reading, Pennsylvania

Flight Canceled

A few years ago, at the Western Reserve Historical Society Aviation Hall of Fame, Elbert Rutan, designer of the famous plane that circled the earth nonstop was honored, as were his brother Richard, who flew the plane, and Jeana Yeager, also of the crew.

Elbert Rutan made a charming, short acceptance speech. After describing the efforts to design the plane and to complete the world flight, he made observations that deeply stirred me. He said that many airplane manufacturing companies wanted him to work for them. He considered it. He visited these companies and studied the conditions under which they worked. He, as a creative designer, decided that he couldn't work under the conditions in these factories. Rules, regulations, laws, and limitations would make it impossible for him to remain creative. Thus he decided to go it alone where he could follow his enthusiasms, his imagination, his inventiveness, without limits.

I began to speculate on what would have happened in the days of the aircraft pioneers if they had been working under the conditions that exist

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today. I pictured that foggy morning at Kitty Hawk when the Wright brothers stood ready to fly after years of hard work. Orville Wright is just about to step into the plane to make the first flight. An inspector steps up. "Mr. Wright, you are violating the law. We forbid this flight; you don't have a pilot's license."

Then I pictured the Ryan Airlines plant. They worked day and night to complete Charles Lindbergh's *Spirit of St. Louis* in 60 days. A remarkable achievement. An inspector steps up. "Mr. Ryan, you are violating the law. We will have to close the plant. You are paying your office boy less than the minimum wage. You refuse to pay overtime."

And then I pictured the morning in New York when the *Spirit of St. Louis* stood fueled and ready for the famous flight to Paris. The last weather report is in—Lindbergh is just climbing into the plane—an inspector steps up—this flight is canceled. "Mr. Lindbergh, you are violating Rule 7102. You are overloaded."

Can it be that Mr. Rutan has put his finger on one of the reasons why American leadership is slipping? And why America finds it hard to compete?

It is worth thinking about.

—FREDERICK C. CRAWFORD, Founder and Honorary Chairman, TRW Inc.

But I Like Oat Flakes!

I was standing in my local grocery store, which displayed shelf after shelf of various breakfast cereals, looking for my favorite.

At first I was annoyed because I was in a hurry and I couldn't find it. Then my reaction turned to amazement as I realized how many different kinds of cereals they had: There were hot cereals, cold cereals, cereals made of corn, of wheat, of rice, of oats, sometimes combinations, some with added dried fruits, some with nuts. There were balls and flakes and bite-sized biscuits. Then nearly all of these were duplicated, in some fashion, by different companies. I fleetingly wondered why they carried so many.

Then I was struck by the humor of it—with all this to choose from, I couldn't find the one I wanted. I wanted oats. I wanted flakes. I wanted the ones put out by a certain company. I *liked* them better than any other cereal. Still, it seemed downright silly that, with so many to choose from, I wasn't satisfied.

My mind flipped suddenly from those laden shelves to pictures of shelves I had seen in Russia—empty shelves, and I was transported to what I imagined might be the complaint department in a Communist country.

"I would like this brand of oat flakes."

"No oats. We got some barley, and next month our allotment calls for some ground wheat, but the shipment might be held up."

"But I want oats. Oat *flakes*."

Narrowing eyes. A scowl. "Are you a trouble maker? No oats. I've never heard of oat flakes . . ."

The reverie was broken as my cart reached the cash register. The clerk didn't wear a commissar's uniform, just a red apron, and a tag that said, "Manager." He smiled, "Yep, a little short-handed today, so here I am."

"Well, I'm glad you are the manager. I was disappointed that you are out of oat flakes. I really like those oat flakes you usually have."

The pad and pencil came out. "We are! Well, we'll fix that. Let's see: oat flakes. Now which brand did you say? Yes ma'am! We'll fix that!"

I smiled as I loaded my groceries. I don't get to be queen very often, but, as a consumer there, that's what I was—even if just for a moment.

—DONNIS STARK THOMPSON
Kenai, Alaska

Cultural and Economic Goods

It is a mistake to make a categorical division between cultural and economic goods. All economic goods are in essence cultural goods. Animals and savages have no knowledge of anything remotely like the trading activity of a civilized society. A book, a record, the performance of a symphony, a religious sermon, the services of a lawyer, the baker's bread—these are all to various degrees goods achieved by societies with a high cultural level, but at the same time with a high economic level, since they are all for the service of others.

—MEIR ZYLBERBERG
Buenos Aires, Argentina

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Reducing Regulation of the Defense Industry

by Murray Weidenbaum

When most people think about regulated industries in the United States, they have in mind the local electric or gas utility, whose rates are controlled by the state public service commission. In contrast, the defense industry rarely appears on anyone's list of regulated sectors of the American economy—but it should. A major cutback in defense spending, which is the outlook for the early 1990s, is the ideal time to focus on this part of American industry and to restore the role of private risk bearing and business initiative.

The reality was best described a few years ago by a senior Pentagon official who asked the heads of two companies—a public utility and a defense contractor—about the government rules that were the framework for managing their respective enterprises. From the utility, the request yielded a few pages that spelled out the state-enforced guidelines. The defense contractor, in contrast, had to comply with over 450 major specifications, directives, and instructions, weighing several hundred pounds. The Federal official concluded, "The reality is that there are infinitely more controls in the so-called free enterprise environment of the major weapons systems contractor than there are in the controlled environment of the public utility."

Murray Weidenbaum is Director of the Center for the Study of American Business at Washington University in St. Louis. This article is drawn from his new book, Small Wars, Big Defense (Oxford University Press).

The same official described enthusiastically his visit to a large defense contractor (each defense plant is under the jurisdiction of a single military service—Army, Navy, or Air Force): "I was impressed with the complete interrelationship of the Service/contractor organizations. They are virtually colocated. . . . The Service is aware of and, in fact, participates in practically every major contractor decision. Both parties join in weekly management meetings."

There is no counterpart in the civilian sector to that close, day-to-day intervention of government in private business decision-making. Although the public is not aware of it, clearly, the companies that produce weapons systems and other specialized equipment for the Department of Defense are subject to more detailed government control than any other branch of the American economy.

The most pervasive way in which the military establishment assumes the managerial decision-making functions of its contractors is through procurement legislation and the rules governing the awarding of contracts. Military procurement regulations require private suppliers to accept on a "take-it-or-leave-it" basis dozens and dozens of standard clauses in their contracts, which give the government contracting and surveillance officers unparalleled authority over the internal operations of these companies.

The authority assumed by the government customer includes power to review and veto a host of

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company decisions: which activities to perform in-house and which to subcontract, which firms to use as subcontractors, which products to buy domestically rather than to import, what internal financial system to utilize, what minimum as well as average wage rates to pay, and how much overtime work to authorize. Thus, when a business firm enters into a contract to produce a weapon system for the military, it takes on a quasi-public character. This is given implicit recognition by requirements for the firm to conduct itself in many ways as a government agency—to abide by buy-American, equal-employment, depressed-area, prevailing-wage, and similar statutes unrelated to the national security.

Bureaucracy at Its Best

The resultant flow of paperwork is incredible. It requires 260 million hours of labor a year. The military's specifications for sugar cookies run to 15 pages. It takes 14 pages to cover the requirements for that vital weapon system, the fruitcake ("the presence of vanilla flavoring shall be organoleptically detected"). The reader can imagine the far greater complexity accompanying rules for bidding on ICBMs or nuclear submarines.

Pursuant to all those directives, defense contractors flood the military with responses to their proposals to produce weapons and equipment. The competitors for the C-5A cargo plane wrote a total of 240,000 pages of material. The submissions weighed three-and-a-half tons (representing a significant part of a forest). All that did not prevent major cost overruns.

The wide variety of "socially responsible" actions that the federal government requires of firms doing business with it are costly to the government procurement process. They increase overhead expenses of both private contractors and the Federal procurement offices. Many of the provisions also exert an upward pressure on the direct costs incurred by the government. Special provisions such as the Davis-Bacon Act have increased the cost of public construction projects through government promulgation of wage rates higher than those that would have resulted if the market had been allowed to operate without impediment.

Government policy-makers in the area of military contracting do not consider the cumulative and negative long-term impacts of this detailed oversight on company initiative and entrepreneurship. Viewed as a totality, these restrictions represent very substantial government regulation of industry. This type of government direction of the private sector has been ignored by most scholars of business regulation because the power is not exercised by the traditional independent regulatory agencies (such as the Interstate Commerce Commission). Rather, the authority over private business arises through the unilateral exercise of the government's monopsonistic (one buyer) market position. There is only one customer to whom defense companies can legally sell aircraft carriers, nuclear submarines, and ICBMs. Even sales of military equipment to friendly foreign nations are handled through Department of Defense officials.

The result of this is also very costly to the taxpayer. Robert Costello, a former undersecretary of defense for procurement, lamented that the Department of Defense wastes 20 to 30 cents of every dollar it spends on acquisition. Private analysts reach the same conclusion when they examine the bureaucratic process by which the armed forces buy tens of billions of dollars of weapons and equipment each year.

Reforming the Process

What can be done to improve the situation? The Pentagon was once described as the place where Franz Kafka meets Alice in Wonderland. In the past, there has been no shortage of piecemeal efforts to reform military spending practices—and they all have failed. Indeed, many have been counterproductive. The Byzantine labyrinth of military decision-making continues undisturbed.

The place to start is a sweeping, zero-based overhaul of the entire military procurement process. The most desirable approach is to eliminate all of the 2,000 pages of existing regulations—and also the 500 pages of standard clauses to be inserted into defense contracts and the 300 pages of standard forms—and to start over. Richard Stubbing of Duke University, who worked on the military budget for many years, states that the status quo can be replaced with 100 pages or less of short, simple regulations.

That means eliminating all the extraneous socio-economic provisions inserted by Congress over the years. These include favoritism to domestic producers of jewel bearings and subsidies to

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AP/WIDE WORLD

The C-5A cargo plane. The submission of 240,000 pages of paperwork didn't prevent major cost overruns.

"small disadvantaged business concerns." By the way, the term "disadvantaged" is defined to cover many categories of people, including citizens whose "origins" are in Japan, China, Korea, India, and Pakistan. (Some of these "disadvantaged" groups report annual incomes significantly above the national average.)

A sweeping reform of the procurement rules would eliminate the bureaucratic activity now involved in determining how small a business must be to qualify for the special procurement benefits. For example, a small firm supplying limestone must have no more than 500 employees, but a small petroleum refinery can have as many as 1,500 on its payroll. It is not easy to identify the contribution to the effectiveness of military procurement made by such provisions.

Similarly, there would be little lost to the strength of the military establishment from dropping the provisions setting aside all or a portion of a government contract for "small businesses located in labor surplus areas." Gertrude Stein (who wrote, "Rose is a rose is a rose") would have loved the government's definition of a labor surplus area: an area of concentrated unemployment or under-employment or an area of labor surplus. Congress's own Office of Technology Assessment has noted, "While Congress did not intend the [military acquisition] system to be slow, cumbersome, and inefficient, laws passed to foster goals other than efficient procurement have made it so."

A "zero-based" approach would also toss out the numerous "micromanagement" (second guessing) efforts imposed by Congressional committees over the years. Congress would have to abstain from such actions as adding 215 study and related requirements to the Department of Defense authorization bill for the fiscal year 1990.

Congressional Meddling

Over the years, Congress has imposed on the Department of Defense an almost endless array of bureaucratic busywork: a required report on spare parts, requirements for the use of pre-qualification procedures, setting the rank and grade for compe-

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tition advocates, establishing tours of duty for program managers, setting rules for allocating overhead to spare parts, and placing SBA spare parts breakout representatives in major defense acquisition centers.

In its spare time, the Congress has also meddled in such administrative details as directing the use of work measurement standards in certain contracts, requiring the employment of Alaskan and Hawaiian residents in military construction contracts in those states, mandating the organization of procurement policy staffs of military departments at the Secretarial level, restricting the purchase of foreign-made motor vehicles, and establishing a policy on inventory accounting systems.

"Micromanagement" is a kind way of describing the tendency for members of Congress to look over the shoulders of military managers rather than to spend their time on such fundamental responsibilities as balancing the budget. On average, every working day the Department of Defense receives 450 written inquiries and 2,500 telephone inquiries from members of Congress and their staffs plus three requirements for separate reports to Congress, each necessitating on the average over 1,100 man-hours to prepare plus 14 hours of testimony by senior defense officials plus three new audits by the General Accounting Office. That helps to explain why it is so difficult to reduce the Pentagon's overhead.

Stripping out the awesome array of "safeguards" and intricate review procedures imposed by Congress as well as the Pentagon leadership would surely help reduce cost overruns and time delays on the production of needed weapons and equipment. Procurement programs now proceed at a glacial pace as contractors and government purchasing personnel carry out all of the required reviews and audits. Authority (mainly to say no) is dispersed widely among program managers, contract officers, senior military executives, auditors, and inspectors. Accountability under the status quo is diluted, and all of this is extremely costly.

About 40 line and staff officials have veto power over one or another part of the efforts of each of the military program managers. One review official can insist that the program managers use designated specifications in awarding contracts, while another can impose specific reliability requirements. None of these "second guessers" have any responsibility for the success of the program.

Simplifying the entire military procurement procedure is also the most cost-effective way of responding to the perennial complaints of small firms that are scared away from defense work because of the complexity of the government's acquisition process.

"Fly Before You Buy"

Comprehensive reform requires dividing military procurement into two broad categories: items that can be purchased readily from the private sector, and weapons acquisition. The great majority of all procurement actions and a substantial, albeit smaller, proportion of the dollar volume of military contracting cover items available in commercial markets. These should be bought directly via sealed bids, without all of the detailed proposal preparations and reviews. The only people who will suffer are the folks who are now paid to write and administer those needless regulations; they will be forced to seek productive work.

For the second category—weapons acquisition—selection should not be made on the basis of a ton of paperwork, but by an older and far more effective method: requiring competing firms to produce prototypes and letting the service personnel who will use the equipment check each alternative out and see for themselves which is the better buy. "Fly before you buy" avoids the repeated shortcomings resulting from rushing weapons systems to premature production before they are really tested.

Reducing the now overwhelming amount of detailed regulation of defense production will save taxpayers substantial amounts of money in many ways, especially by decreasing the vast amount of paperwork. Perhaps of greater long-term impact will be the restoration of the private enterprise orientation of the companies that produce weapons and equipment for the military establishment. That would enable these companies to demonstrate the initiative and innovativeness that make private enterprise so much more effective than government arsenals. □

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Mr. McAllister's List

by Donald G. Smith

Ward McAllister, a 19th-century social climber, coined the term "The Four Hundred" to determine who was, and who was not, among the social elite. The term had great relevance for him because it determined the other 399 people who could be comfortably accommodated in Mrs. William Astor's ballroom. Those who were invited were *in* and those who were not invited were *out*, and McAllister did the spade work for Mrs. Astor in making this determination.

McAllister seemed to assume that this situation would last forever; that the "right" people would breed more of their kind and that his beloved Four Hundred would continue through eternity. He was wrong, however, because he totally misread the forces that were shaping a great nation. His venture into American aristocracy failed because in our society any elite grouping is necessarily a fleeting, temporal thing. Whatever kind of an upper class exists at a given moment is based upon accomplishment.

By the 1890s, when McAllister compiled his list, the movers and shakers of a new era were already taking form. Sebastian Kresge risked it all by opening his first store in 1897. A Polish orphan, later to Americanize his name to Samuel Goldwyn, would pass through Ellis Island without a penny in his pocket.

A Four Hundred of the 1950s, 1970s, or of today would include almost none of the surnames on McAllister's list. There were no Sarnoffs waltzing in that ballroom because the family hadn't yet immigrated from Russia. Nor was there anyone from Glenn Martin's family tree. Young Martin would start his first aircraft company in 1915, his "plant" being an abandoned church in Santa Ana, California. Walter Chrysler at the time was working as an apprentice at the American Locomotive Company, and Henry Ford was a backyard tinkerer in Detroit. There were no Trumps or Krocs on the guest list; nor were there any Gianninis, Sikorskys, or Gettys.

Two young men named William Hewlett and David Packard would make a name for themselves in American industry, but not before they had pooled their assets of $538 and started a company in Packard's garage. Celebrated architect I. M. Pei arrived in this country in 1935 and, as the expression goes, made something of himself. His ancestors, of course, weren't on the Astor guest list because they were otherwise occupied with finding something to eat in southern China. McAllister, as might be expected, had never heard any of these names. These people would come along later, make an indelible mark on this country, and take a place on whatever list a collector of big names happened to be compiling.

The crux of all this is in the very nature of capitalism. If there is a social elite, it is an elite of accomplishment. Those who move to the forefront do so by what they have done and hold their power only as long as they are producing. In American society one doesn't coast on a family name for very long. *Old* money is measured in decades, not in centuries.

Those who say that one has to belong to a certain social class to make a mark have no compre-

Mr. Smith, who lives in Santa Maria, California, frequently writes for The Freeman.

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DOVER BOOKS

An elegant 1890s crowd under the arcade of Madison Square Garden at night.

hension of the capitalistic system and less of history. Our "in" people are invariably those who have done something. These are the people who are the most wanted by talk-show hosts and are considered catch-of-the-day for any social-climbing party giver.

McAllister's guest list is a time capsule that clearly identifies the people who shaped an era. Included in The Four Hundred were the accomplishers of the late 19th century: the industrialists, the artists, the builders, the people who made decisions and got things done. Most of them were self-made, and the old money in the room would have looked like new coinage on the other side of the Atlantic. Indeed, the Astors themselves could look back only a century to when John Jacob arrived penniless from Germany with ideas of making it big in the New World. His American Fur Company was founded in 1808, and his descendants had become the oldest of the old money long before the century had played itself out.

No, there is no American aristocracy, and one doesn't have to be born to the purple to make it big in America. Tomorrow's Four Hundred is now in the larval stage, waiting to break out into the sunlight. Right now they are children living in crowded apartments in Brooklyn, trailer parks in New Mexico, or strawberry fields in California; or maybe their parents are looking for ways to get to America. They will somehow elbow their way to the top and will spend their time on center stage. These people will be the new social elite and will bring a brand-new set of names to the roster of big and important individuals.

This is the way the system works. We will always have a Four Hundred of sorts, but no one gets a free ride, and there are no names carved in stone. As they say in Hollywood, you are only as good as your last picture. □

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The Dark Lessons of Utopia

by Alex Kozinski

While I was at UCLA in the late '60s and early '70s, *tout le monde* was a collectivist of one stripe or another. It was the height of the Vietnam War, a time when, in the words of Justice William O. Douglas, we were bombing innocent peasants "whose only 'sin' [was] a desire for socialized medicine to alleviate the suffering of their families and neighbors." It was a time when every self-respecting college campus had its spring demonstrations and sit-ins promoting a cornucopia of causes, and when "capitalism" was a synonym for "fascism." The cure for what ailed us, everyone seemed to agree, was greater, deeper, more extensive government involvement in our lives. And the sooner the better.

Having left the popular vision of Utopia—a country whose government attempted to solve everyone's problems—only a few years earlier, I found this naive, or worse. And I said so, often and forcefully, to the dismay of my colleagues and professors who thought I was much too smart to hold such troglodyte views. When I confronted them with the hard reality of what life was like behind the Iron Curtain, I received various evasive or glib answers: "You have to give collectivism a chance to work," or "there are different forms of collectivism," or "Romania and the other eastern bloc countries would do better if they were more like Sweden." "You're exaggerating," still others would argue, "at least they don't have crime, racism, pollution, and huge disparities in wealth, the way we do." And so on. In the years I spent at UCLA, I doubt I managed to wean even three people away from the sweet morphia of collectivism. Faith in the power of benevolent government is very difficult to shake.

Events in Eastern Europe over the last few years should prove an embarrassment to many. People in this country should be reconsidering their fundamental assumptions about what government can and should do, and what it should not. Surprisingly, this has not happened. Government at all levels grows bigger and more powerful; it absorbs more of our productive resources than ever before; and its involvement in our daily lives increases unabated. Even as the peoples of Eastern Europe strive to establish free market economies, implement private property rights, and diminish the role of government, the United States continues on a path headed in the opposite direction. We have been so busy gloating over the triumph of our system, and so anxious to offer the Eastern Europeans advice on how to run their new lives, that we have hardly paused to consider what we might learn from their bitter experience.

In all likelihood, the people of Eastern Europe will do just fine, despite some of the bad advice that may come from the West. Having lived through the dreary hopelessness of collectivism, they will eventually and unavoidably turn to free markets and private property. The transition to capitalism may take time, it may be painful, but it is inexorable.

Judge Kozinski, who sits on the United States Court of Appeals for the Ninth Circuit, left Romania in 1961 at age 11. An earlier version of this article appeared in The University of Chicago Law Review, *vol. 58 (Spring 1991).* *Copyright © 1991 by Alex Kozinski.*

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The more pressing question is: How about us? Are we to learn anything at all from the disaster that befell hundreds of millions of people for so many decades? I posed this question to a friend of mine, a committed statist. Her answer was simple and not particularly encouraging: "What we have learned from the experience of Eastern Europe and the Soviet Union," she told me, "is that you need capitalism to make socialism work." In other words, capitalism must produce what socialism is to distribute. That, in essence, is the lesson many of our policy-makers draw from the cracking of the Iron Curtain and the wasteland we have discovered behind it: So long as you leave production in private hands, more or less, you can let the government do whatever meddling it cares to. The idea that things may be improved by decreasing government involvement in the economy—and in every other aspect of our lives—is still viewed as a quaint eccentricity, a pre-New Deal anachronism.

It is tempting to say that I am describing a phenomenon limited to a tiny liberal elite—a view popular only inside the Washington Beltway, in a few state capitals, and on college campuses. It's tempting, but it's not true. We, no less than any other nation, have the government we deserve. The fact is, the vocabulary of political dialogue in the United States is undergirded by a variety of statist assumptions: Solutions to social problems begin with government appropriations and the establishment of blue-ribbon government task forces, new agencies are needed to handle new problems or oversee new industries, and budgets of existing agencies cannot be cut without jeopardizing their missions.

Based on these assumptions, we believe that a successful President is one who gets most of his legislative program passed, a successful legislator is one who authors bills that reach the statute books, and a landmark Congress is one that passes a lot of laws. No one gets elected on a promise to do nothing; few incumbents campaign by listing laws they have managed to get repealed. When a problem arises—whether economic dislocation, a natural disaster, a dreaded disease, an infestation of rodents, or a water shortage—politicians fall all over themselves to get on television and explain how they plan to spend taxpayers' money to solve it. I can't remember a single time when a journalist or constituent asked a public official about a problem, no matter how trivial, and the politician answered that it wasn't any of his business.

In a society that prides itself on individualism, self-reliance, personal initiative, and independence, we consistently elect officials whose instinct is to solve our problems through government programs. Few people, it seems, have seen a connection between what's happening in Eastern Europe and what's going on here. Perhaps it's time to state the obvious.

Collectivism and Freedom: Natural Enemies

The lifting of the Iron Curtain has revealed societies that are the very antithesis of what Marxist ideology and its American apologists had predicted. The theory of collectivism, in one of its many variants, posits that people are naturally hard-working and productive, regardless of economic reward. If the government assures that people receive a decent living and if it allows them total freedom to choose their vocations, everything will get done through volunteer labor and, as the slogan goes, the fruits of production will go "from each according to his ability, to each according to his needs."

In light of recent events—or even simple common sense—it is difficult to understand how educated, supposedly intelligent human beings could cling to this notion. You don't need clairvoyance to realize that a system of total free choice divorced from economic incentives would produce a vast overabundance of restaurant critics, movie stars, and surfing instructors, but a drastic shortage of rendering-plant workers, highway-button layers, and septic-tank cleaners. On the consumption side, one would expect people to eat filet mignon instead of Spam, to drive Cadillacs instead of riding buses, and to shop at I. Magnin instead of K Mart.

Without a price system to allocate resources and create incentives, there is no way to match up supply and demand, talent and job requirements. One of the most serious problems facing Eastern European policy-makers may be grasping the fundamental role of the pricing system in spurring supply and tempering demand.

Just how little they understand the workings of the invisible hand was demonstrated to me in a conversation I had with an economist during my

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visit to post-revolutionary Romania. I suggested that the most important thing would be for the government to get resources into private hands by sale, gift, or lottery—the initial allocation mechanisms mattered little. He agreed in theory, but was concerned over what would happen if all the land were in the hands of private farmers and one year they happened to grow too much rice and too little wheat to sustain the population. He concluded that this was a risk Romania could not take.

Even if one assumes a central authority with the efficiency of a computer and a superhuman ability to perceive everyone's abilities and preferences, there is no way to make it all work because things just can't be matched up. And, of course, they weren't. The Fabian notion that the state would wither away as everyone went about doing what they were supposed to and consumed no more than what they "needed" gave way in collectivist economies to perpetual shortages, mandatory 50-, 60-, or 70-hour work weeks, appalling medical care, and a police state of monstrous proportions. Massive resource misallocations, shoddy workmanship, and allocation of goods by favoritism, graft, and queueing became the hallmarks of the collectivist state. Collectivist agriculture was a disaster due to chronic labor and capital equipment shortages. And while the government officials attempted to control all aspects of the economy, they neglected the harm that industry and agriculture inflicted on the environment.

But, in the words of Joe E. Brown, nobody's perfect. Even if collectivist economies did not perform up to par, the trade-off might have been acceptable if they had achieved some of socialism's other goals. Collectivism, after all, promised brotherhood first and abundance only second. All might have been forgiven if collectivism had brought about a happier, more tranquil, less harried existence. It is better to be poor and happy than rich and miserable, although admittedly it's a close call. But it is precisely in this respect that collectivism had its most stunning failures. By every conceivable standard, collectivist states fell short of their expectations, failing to provide even a minimally acceptable quality of life to their citizens.

Consider the promise of equality. Collectivist theory teaches that differences in wealth and power must be leveled so that everyone stands on an equal footing: the janitor and the company president, the peasant and the commissar, the septic-tank cleaner and the Secretary General. All citizens would call each other comrade because they would each be considered equally important in carrying out the glorious mission of the collectivist state.

Stratified Societies

To articulate the proposition, however, is to ridicule it. Few modern societies have been as stratified as those under collectivist rule. In the Eastern European countries that were under such rule, the same people controlled both the political and the economic power. This powerful elite demanded and enjoyed a high standard of living for themselves, leaving the rest of society with a standard of living that was appallingly low.

In the Soviet Union, for example, members of the party elite were and continue to be entitled to a variety of privileges, including better food, schools, and housing, in addition to the use of servants, cars, and party-owned vacation homes. They shop in special stores that stock higher-quality food, scarce consumer goods, and luxury items. The higher the official's rank, the higher quality special store he can enter. The Soviet model is a typical arrangement in collectivist economies.

No less striking were the inequities perpetrated on the basis of immutable characteristics such as ethnicity, religion, and gender. Stories about the official Romanian persecution of ethnic Hungarians are now commonplace. Less well documented, but far more pervasive, was the harassment by straw bosses at all levels against employees under their control.

An individual's job in a collectivist economy is often that person's only opportunity for earning a livelihood. Because a state-controlled economy does not allow for competition among enterprises in the same industry, an employee cannot just switch to working the same job for a competitor; a job change often requires a change in industry and the acquisition of new job skills. Because employees were largely immobile under the collectivist regimes, they were at the mercy of their supervisors' demands, reasonable or unreasonable. In most cases, the collectivist state reinforced the boss's tyrannical authority by making unemploy-

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ment an economic crime against the state, often labeled "parasitism," which carried significant penalties. While employees had a right to fair treatment, at least in theory, the universal practice was to the contrary. Ethnic and religious discrimination was a well-known reality; sexual harassment a fact of life.

I recall vividly how I first learned the extent of this problem. During a trip back to Romania in the early '70s, I struck up a conversation with a man in a small town near Timisoara. He had two grown children, a son and a daughter. I asked whether they were going to the university. He said yes as to the daughter, but no as to the son. I asked whether his daughter was a lot smarter than his son. He said no, but added that it's far better to step with your boot into cow manure than to take off your boot and fill it with manure. I must have looked baffled because he explained: The son would take care of himself, but the daughter, unless she was armed with a superior education, would be constantly harassed for sexual favors by her superiors. I asked him how he knew. He responded that he was himself a supervisor.

Freedom: An Indivisible Concept

Collectivist societies, as we are now well aware, largely obliterated the liberties and privileges we consider essential in a civilized society: speech, religion, assembly, access to the courts, privacy of body and place of abode. This all-encompassing repression was a direct consequence of the collectivist economic systems. The governments gained complete and pervasive control over their citizens largely because they controlled all production processes, all channels of commerce, and all means of transportation. Every citizen knew that his job, food, home, medical care, and means of transportation—everything he needed to survive—were provided, and could be cut off, by the government. These societies perfectly illustrated the idea that freedom is an indivisible concept: Economic freedom is intimately related to, and is a prerequisite for, other types of freedom. Political and intellectual freedom cannot be achieved without economic freedom.

In Romania, for example, the economic system made it virtually impossible for an individual to publish or broadcast his views. Private citizens did not have access to printing presses and could not obtain sufficient paper or ink. The government even outlawed private ownership of photocopiers and required registration of typewriters. And individuals certainly did not have access to broadcasting facilities.

Similarly, the Romanian people could not practice their religions—even clandestinely—because the government made sure they lacked the necessary texts and ceremonial articles. A further impediment to any semblance of religious life was the lack of leisure time. Between long work hours and the time spent scrambling for the rudiments of survival, laboring for the state on weekends, and attending political rallies, Romanians rarely had time for anything else.

The economic deprivation and lack of free markets under the collective regimes also interfered with personal privacy in ways that would shock Americans. In our society, individuals demand their own space and consider their homes to be their castles. But how much can personal privacy mean in Romania and other Eastern European countries, where several families often live in one apartment and share one toilet (which may or may not work)? In Romania under Ceausescu, the citizens never really knew when their phone lines were tapped, whether their workplaces and homes were bugged, or whether their mail had been read by government officials.

I learned the extent of this type of intrusion when I corresponded with friends in Romania during the early '70s. One day I received a letter written in Romania but postmarked in Germany. Not signed, the letter directed me to discontinue writing to friends in Romania because the correspondence was placing them in danger. I was baffled by the request because it did not specify which friends I should stop writing to. It was not until some years later, when I next visited Romania, that I learned what had happened: Each person I had been writing to had been questioned by the police about the correspondence. One friend became so concerned that he gave my address to people who were planning to visit Germany so they could tell me to stop writing. Even though the letter was to be sent from outside of Romania, he was reluctant to give his name.

Similarly, fundamental decisions regarding reproduction and sexuality couldn't be matters of individual choice because modern means of contraception were unavailable, even where permit-

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ted by law. In short, state control permeated virtually every aspect of personal, family, and community life.

Far worse than the individual effects of these measures was the total loss of dignity visited upon the population. Life in a collectivist economy was one long struggle for survival. For the multitudes who were not members of the ruling elite, day-to-day existence meant long hours of menial work at low pay, followed by more long hours waiting in lines for such luxuries as bread, fresh meat, and toilet paper. Weekends were often spent doing "volunteer" work, repairing roads or clearing corn fields for the government.

At every turn, the individual was confronted with powerful, mean-spirited representatives of the state who threatened abuse if they weren't paid off in money or black market luxuries, such as coffee or Western cigarettes. Medical care, which was supposedly everybody's right, often could not be obtained at all, and never without greasing the palm of the dispensing physician or paramedic. Such power could only be wielded because all channels of authority originated in the state. There were no private alternatives, no way to circumvent the state-established and maintained power structure.

Another of the monumental failures of the collectivist system was education. While, in theory, collectivism assured everyone the right to pursue whatever career their talents warranted, the reality was much different. As part of the central planning process, the state determined each year how many doctors, lawyers, engineers, mathematicians, and architects would be needed. The number was usually far less than the number of young people wishing to enter the field.

The choke point for a young person's career hopes usually came in the summer following graduation from high school. Those students hoping for a college education applied for the few available university positions; admission decisions were ostensibly made by use of standardized test scores. In practice, many university slots, like everything else, were allocated to those whose parents had connections or were willing and able to bribe university officials with large sums of money or exotic luxuries. The few remaining spots went to the very ablest of the large groups of applicants.

The government denied the multitude who were not lucky enough to get into the university any opportunity to work in their chosen field. For them, all possibility of professional development was cut off; they were relegated to life on an assembly line or some other unskilled or semi-skilled work. Every summer, tens of thousands of aspiring high school graduates saw their lives literally crumble before their eyes, any hope for a fulfilling career and economic improvement snatched away from them forever.

Examples of major and minor ways in which collectivist society frustrated individual development could easily fill several volumes. The degree of frustration, personal humiliation, and economic deprivation suffered by the many millions of people imprisoned behind the Iron Curtain is difficult to comprehend by those who have never lived under that system. Suffice to say that the reality of the system in operation crushed with a vengeance any idealistic aspirations collectivist planners may have had in establishing and promoting centrally planned societies.

It Couldn't Happen Here—Or Could It?

In surveying the rubble left by decades of collectivist rule in Eastern Europe, it is easy to forget that the system relied on a high-minded and idealistic premise, namely, that by placing power in the hands of the state and taking it away from individuals, one would achieve a more just, more prosperous, better-ordered society. Going at least as far back as Thomas More, there has been a pervasive and hardy notion that what individuals can do separately, by pursuing their own individual interests, the state could do much better if only it had the resources and the authority to make the same decisions in a centralized fashion. Many of the individuals who supported collectivism in Eastern Europe, and who worked and fought for its implementation, were firmly convinced that they were helping to found Utopia.

How, then, did things go so wrong so quickly? One could dismiss the entire collectivist experiment as a poor job of implementation, a good idea badly carried out. To do so, however, is to sell short the idealism and goodwill with which many collectivist societies were founded, and to shut one's eyes to what happened once the state took it upon itself to run every aspect of the social order.

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The problem lay not with the implementation of collectivism, but with its central premise. Quite simply, the state cannot take on the job of making all, or even a substantial number, of the important decisions in a society. The government can make and enforce laws, it can police, it can adjudicate, but it cannot decide what is in everybody's best interests. People's talents, needs, aspirations, goals, and limitations are too diverse and conflicting for any central authority to take into account.

And even if it could, that power would carry the seeds of its own destruction. An essential aspect of life as a human being is the right and the power to make decisions about one's existence, to succeed or fail on one's own merits. Utopia carried its own resounding refutation. Even if one shared More's assumptions about what constitutes an ideal society, who would want to live there? A system that does not allow for failure also does not allow for the self-fulfillment that comes from striving; failure on one's own terms can be far sweeter than bland security. What purpose is there in living if all essential decisions from cradle to grave are made by someone else?

Concentrating power in one central authority carries with it more palpable dangers as well. As should be clear by now, the state cannot repeal the laws of economics; there is no fixed demand for shoes, bread, automobiles, leisure, or any other resource, and no fixed supply of people willing and able to engage in particular occupations. The only satisfactory way of matching up supply and demand for goods and services is through a pricing mechanism that allows individuals to take account of opportunity costs when making decisions that collectivism would assign to the state.

Finally, there is grave danger in placing too much power in the hands of a few individuals. Honesty and good will can only go so far in preventing abuses of power. The sad experience of the collectivist economies proves what should have been obvious all along: Unless a society has competing sources of power, those in control will take advantage of their authority to promote themselves and their friends at the expense of everyone else.

These lessons appear remote and irrelevant to our situation because we are a long way from a collectivist society. We rely, for the most part, on

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capitalism to furnish goods and provide employment; we have a system of limited government, with a Constitution and laws to constrain our public officials; and the government power that does exist is balanced in many respects by the power of private entities, civic and commercial. We seem to be far indeed from the types of societies that we have seen crumbling in Eastern Europe.

Unfortunately, however, we appear to be headed in that general direction. We may be safe for some time and, indeed, our system may have enough safeguards to keep us from ever getting there completely. But to the extent we seem to be adopting some of the operating assumptions of collectivist societies, we risk making some of the same mistakes—mistakes that may cost us dearly in the long run.

Promises Without Premise

The architects of collectivism sought to achieve goals that are not all that different from those most people consider desirable. Collectivism promised prosperity and sought to achieve it by avoiding the "chaos" of capitalism and substituting the more orderly—and hence more "efficient"—system of government planning. Collectivism promised greater individual self-fulfillment by freeing persons of the economic pressures of a market society. Equality in wealth, status, and power among individuals is another goal central to a collectivist system; so is the right to be free from hunger, homelessness, or inadequate medical care. While one may reasonably dispute whether all of these goals are the proper objects of government control, few would disagree that they are desirable attributes of a modern society.

There is only a very small step, however, between recognizing a goal as desirable and concluding that it is one that government should promote. And it is only a very tiny step further to say that, if the goal is so desirable, perhaps we can shift the cost of achieving it to someone else in society. The two small steps are so simple, and by now so reflexive, that most policy-makers hardly bother to articulate them. Yet they are a prescription for a limitless expansion of government authority. There is an endless supply of problems we would love to have solved at the other fellow's expense. And the other fellow, of course, feels the same way.

The simple fact we should have discovered from our experience, and should have no remaining doubt about upon examining the shambles left by the collectivist societies, is that there is a limit to what government can accomplish. Even a government as powerful and intrusive as Ceausescu's Romania can control only a small fraction of the decisions in a society; individuals make many millions of decisions each day, adjusting their behavior in light of the government's actions. The more policy-makers seek to accomplish and the more heavy-handed their actions, the more likely they are to change existing incentives, triggering a series of behavioral adjustments. Every purported solution creates a ripple effect which, in turn, creates a new set of problems, sometimes more serious than those it attempted to solve.

Examples of this phenomenon in the United States are far too numerous to catalogue; a few will suffice. Occupational licensing is one of the most widespread and universally accepted forms of government regulation. In fact, some 800 occupations and professions are licensed by one or more states. A recent study by the Federal Trade Commission's Bureau of Economics concludes that much of this licensing is unnecessary and counterproductive. Some occupational licensing schemes do not achieve the goal of raising professional standards, yet they increase prices to consumers. Even when the licensing achieves the goal of increasing competence among providers of the service, consumers are not necessarily better off. As a recent FTC study found, "Price increases due to licensing may cause some consumers to 'do without' the service, or to 'do it themselves.'"

The Consumer Pays

The costs to consumers—implicit and explicit—can be staggering. In the dental profession, for example, the out-of-pocket cost to consumers of restrictions on the use of dental auxiliaries such as hygienists—restrictions that do not enhance the quality of services—is estimated to have been as much as $700 million in a single year.

The consumer welfare effect of occupational licensing tells only part of the story, of course. Denial of a professional license, even temporarily, can have a devastating effect upon the career of an aspiring professional. Imposing such burdens on individuals may be legitimate if we are convinced

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that it would increase consumer welfare; such imposition is wholly unacceptable, however, when it results in a net decrease in consumer welfare. In the latter situation, of which there appear to be many, the attempt to do one right results in two wrongs.

Rent control, which has been imposed in a large number of communities, is another example of how well-intentioned regulation can have perverse effects. Despite some cynical suggestions to the contrary, I assume that most rent-control schemes are passed in a good faith effort to even the balance of economic power between landlords and tenants so as to achieve rentals that are fair to both parties. But good intentions cannot repeal the laws of economics. Rents are usually high for a reason: They represent the market-clearing prices for housing. Rent control does nothing to ameliorate the underlying supply and demand conditions, and often exacerbates the problem by decreasing the market incentive to increase the housing stock. At the same time, tenants in rent-controlled apartments are less likely to move out or switch to smaller units, thus overusing the limited supply of housing. The perverse effects of rent control are too well-documented by now to require much elaboration.

A scheme with similarly perverse outcomes was the odd/even gas rationing adopted by several states, including California, during the oil crisis of the mid-'70s. The scheme was simple: If your license plate ended with an odd number, you could buy gas only on odd-numbered days; if you had even-numbered plates, you could only fill up on even-numbered days. The goal was to decrease lines at the gas pumps. No one was really sure how or why it would work, unless one accepted the naive notion that the lines would be half as long because only half the cars could buy gas on any one day. Odd/even rationing made planning ahead more difficult, because one could not be entirely sure how much driving one might have to do on a no-gas day. Consequently, most drivers were reluctant to let their gas gauges go too low and tanked up more frequently—precisely the opposite effect from that intended. In addition, being able to buy gas on half as many days roughly doubled a driver's demand for gasoline on the days he was permitted to buy gas, resulting in a change in the make-up of the lines at the pumps but no decrease in waiting time. That government regulators did not predict this result reflects a lack of understanding of the fundamentals of economics evocative of the crumbling economies in Eastern Europe. Odd/even gas rationing is perhaps the quintessential example of government action taken simply because everyone expected the government to "do something" about the problem.

The Collapse of the Savings and Loan Industry

One could go on and on, but perhaps the most stunning example of the dangers of government intervention in the economy and of the failure of government officials to understand the consequences of their actions is the recent collapse of the savings and loan industry. No doubt it will take many years to identify the culprits in this debacle; perhaps we shall never know who they are. But the one thing we do know is that this national disaster is the direct result of massive regulatory blunders.

At the heart of the regulatory scheme was a system of Federal deposit insurance which, as of 1980, insured deposits up to $100,000. Deposit insurance seems like one of those great regulatory ideas that ought to have few, if any, detractors. Congress established the FDIC in 1933 in response to a wave of bank failures during the Depression. Bank failures, the rationale went, often were precipitated by loss of public confidence in otherwise sound institutions, resulting in bank runs—rushes by clients to withdraw their funds. Banks, of course, cannot pay off all of their depositors at once, as they keep only a fraction of deposited funds on hand; they invest most of their money in loans and other illiquid assets. Bank runs are thus often fatal, even when institutions are financially sound. Deposit insurance was meant to assure depositors that they would always be able to get their money back, thereby promoting the stability of financial institutions.

Deposit insurance, of course, was only meant to protect financial institutions from false runs by depositors—runs that are precipitated by panic rather than legitimate concerns regarding a bank's soundness. It was never meant to insure against normal business risks such as bad investments or dishonest managers. But as with all insurance systems, deposit insurance created a moral hazard problem because it allowed S&L executives to

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spend other people's money without any downside risk. When the government created the insurance system, it thus took on a correlative duty to guard against this moral hazard by overseeing and monitoring the industry to make sure that S&Ls invested responsibly. The S&L crisis was the proximate result of a massive failure of such oversight. The reasons for this failure are complex. As we are beginning to learn, it was due, in part at least, to political pressure from elected officials seeking to protect troubled financial institutions in their states.

More generally, it was a failure of regulation. Having concentrated oversight over an entire industry—one holding hundreds of billions of dollars of other people's money—in a single agency that did not have the personnel or resources to monitor its activities, the government created the risk that a mistake could have disastrous consequences. It is not necessary to argue that this type of debacle was inevitable or even very likely; it is enough to point out that it could not have occurred had deposit insurance been left in the private sector.

These regulatory blunders provide their lessons at a very dear price. Estimates of the S&L bailout run as high as $500 billion dollars and will probably go higher. To put this amount in perspective, the entire cost of World War II, adjusted for inflation, was only $460 billion. Indeed, $500 billion is greater than the total budgets of all of the 50 states (using fiscal 1987 figures, the latest available), about four times the 1988 profits of all of the Fortune 500 companies, and several hundred times the $1.3 billion the National Cancer Institute spent on cancer research in 1989. What a colossal and tragic waste.

A Misguided Faith

These domestic regulatory failures reflect our misguided faith in the government's ability to protect society from economic harm, a premise different in magnitude, but not in character, from that which provides the impetus for collectivist societies. Such debacles remind me of the traditional illustration of the mathematical concept of geometric progression—a lake that is slowly being covered by algae. The lake's owner notices that the algae grows by doubling in area every day. The owner decides he has plenty of time to deal with the problem and takes it up when the lake is half covered—only to discover that he has one day left before the lake is completely suffocated by the algae.

It may seem to us that our system is far from those recently discarded by the Eastern European nations, but our complacency may be no better justified than that of the lake owner. Governmental intervention into all aspects of our lives—and particularly into economic matters—is now so pervasive and so readily accepted that there is really very little that government cannot get involved in. At the Federal level, there are now 51 major regulatory agencies; before 1900 there were fewer than 10. Even after the New Deal there were fewer than 30. Until as late as the 1960s, the industries directly regulated by Federal and state agencies accounted for only one-tenth of GNP. Since then, a number of agencies have been created to pursue certain policy lines and regulate across all industries, for example, OSHA, EPA, and CPSC. These agencies constrain American businesses at every turn. All American firms must comply with a confusing array of regulations relating to their personnel and compensation policies, production processes and facilities, and products or services. The recent increase in environmental regulation has been particularly dramatic. The Environmental Protection Agency now accounts for nearly one-third of Federal regulatory agency spending. Its staffing has increased from 3,900 in 1970 to 15,300 in 1990, and its budget has increased accordingly.

The courts too have done their share of regulating business by means of the tort liability system. This method of shaping business behavior—settlements and damage awards in tort suits—is particularly pernicious because it is often at odds with regulations of other government agencies, is unpredictable in its application, and can impose burdens on society that far outweigh the benefits to consumers. The number of useful products or services that have been driven out of the market or made prohibitively expensive because of the risk of staggering tort liability verdicts is far from *de minimis*. The drag of our tort liability system on American businesses also may place them at a competitive disadvantage in both domestic and international markets.

Although our government is a far cry from the

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all-encompassing state monoliths that have crumbled in Eastern Europe, one might be surprised at how much of our national wealth passes through the government's hands. Federal, state, and local governments together spend more than 40 percent of our national income; at the turn of the century they spent less than 10 percent. Federal spending on economic and social regulation has increased dramatically over the past two decades. In constant dollars, spending on both economic and social regulation tripled during this time. Our federal government has become the world's largest landlord and tenant, as well as its largest bank, with a loan portfolio equal to the combined portfolios of the nation's 70 largest banks. It also runs hundreds of hospitals, the world's largest data processing system, and the world's largest civilian fleet of cars, trucks, and buses.

The Costs Add Up

Some of what government does is good, and most of it is well-intentioned. But our ability to predict the full effects of governmental actions —much less the synergistic effects of hundreds of thousands of simultaneous government interventions—is very limited. Far too often there are unanticipated results and costs, despite the most careful efforts of government officials. And the costs add up: $700 million lost annually on dental care, $500 billion on account of the S&L crisis, and who knows what amount for each of the other numerous government intrusions and interventions into the economy. Assuming we are able to clean up the S&L mess without severe injury to our economy—something yet to be seen—how many more such shocks can we sustain without precipitating an economic catastrophe?

And what about the smaller, more subtle burdens on our economic structure as a result of layer upon layer of regulation? How long can we continue to be competitive in world markets when we are slowly asphyxiating our productive resources with an endless stream of laws and regulations at the Federal, state, and local levels?

It is possible, of course, to exaggerate the problem. After all, we continue to have one of the world's most productive economies, although our lead over many other industrialized nations has dwindled significantly in recent years. What is alarming, however, is the widely accepted attitude that government can or must or will have answers for every problem. This very faith in the omniscience and omnipotence of government led to the establishment of the collectivist experiments we have seen crumble in Eastern Europe. Once this assumption is made, there are few logical stopping points short of total government control; inexorably, the tendency is to move in that direction. The sad experience of the hundreds of millions of human beings trapped behind the Iron Curtain until recently ought to give us pause. It ought to make us take a hard look at that assumption.

Conclusion

In the current spate of constitution-writing, we can only hope that Eastern Europeans will profit from the dark lessons of Utopia. For better or for worse, the people of Eastern Europe will reform their economies and re-examine the assumptions underlying their systems of government. Although the transition from collectivism to market democracy will not be easy, they have their own history and ours to look to for pitfalls and paradigms.

But to paraphrase President Kennedy, we should ask not what Eastern Europe can learn from us, but what we can learn from Eastern Europe. Once burned, the people of Eastern Europe are not likely to fall prey to the notion that all things can be achieved if only government gets involved. The question is, are we going to pay heed, or are we destined to make some of the same mistakes with some of the same consequences? □

Restraints on Power

IDEAS ON LIBERTY

NO MAN IS wise enough, nor good enough, to be trusted with unlimited powers.

—CALEB C. COLTON

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Freedom and the Prospect for Soviet Economic Reform

by Dwight R. Lee

Economists who return from a visit to the Soviet Union, as I recently have, are seldom bashful about suggesting remedies for the sick Soviet economy. Most of them observe that bureaucratic control is stifling Soviet economic activity, and they propose that the incentives and flexibility of private markets be substituted.

Correct though this advice is, it is easier to give than to take. No matter how much Soviet citizens and their leaders have become interested in economic reform, the move to a market economy will be difficult.

The fundamental problem facing Soviet reformers is the connection between market institutions and tolerance for economic freedom. Without market institutions, the Soviets will be hard pressed to allow economic freedom. Without tolerating economic freedom, they won't be able to develop market institutions.

Some Superficial Problems

Most difficulties seen as hampering the transition to a Soviet market economy are overstated.

One perceived problem is the "ruble overhang." Soviet consumers have amassed large holdings of unspent rubles because there are so few consumer goods. Although some rubles were confiscated recently in what was described as a currency reform, the fear remains that if Soviet consumers are allowed to spend all their money in free markets, explosive price rises will follow.

There is also the concern that the Soviet people have never lived in a market economy, and therefore won't be able to respond correctly to the incentives of prices and profits. Workers aren't accustomed to the disruptions of unemployment and job changes caused by shifting preferences and improving opportunities in market economies. After decades of depending on the state for subsidized housing, medical care, food, and almost everything else, Soviet consumers are supposedly unprepared to face the full-cost pricing and complex choices of the marketplace. Furthermore, Soviet citizens are seen as almost completely lacking in entrepreneurial spirit.

These concerns, though potentially troublesome in the very short run, are overstated as serious problems. Privatizing housing and other state-owned assets could soak up excess rubles, in addition to increasing the care given to what is now public property. Of course, temporary price increases are inevitable in a move from state subsidies to private markets, but market incentives would soon lead to dramatic reductions in the real

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costs of products to Soviet consumers by motivating significant increases in the quantity and quality of those products.

Also, there can be no doubt that people learn quickly to respond to the incentives, choices, and opportunities of the marketplace. South Koreans, Taiwanese, and Japanese, assumed by many to lack a market mentality, have demonstrated how quickly such a mentality can arise when given the opportunity. When workers find that they are rewarded for greater effort, they become more diligent. When consumers are faced with market prices and abundant alternatives, they quickly learn to make appropriate comparisons and sensible choices. And there is nothing like the potential for profit to stimulate entrepreneurial zeal.[1]

The Fear of Freedom

Underlying all the problems associated with a transition from socialism to capitalism is a more fundamental issue that has been almost completely ignored. This concerns the interaction between market institutions and the tolerance for freedom that those institutions make possible.

Most Soviet citizens are eager for the economic improvements now recognized to depend on a market economy. Yet they continue to fear economic freedom, since in the absence of well-developed market institutions, such freedom can harm many innocent victims.

For example, one of Mikhail Gorbachev's more important attempts at economic reform has been to allow cooperatives: private businesses largely limited to the service sector and permitted to set their own prices in response to market forces. Predictably, cooperatives have met with much popular resistance, as they have been seen as acting without full accountability to the concerns of others. While cooperatives sell their products at market prices, they obtain many supplies at lower, controlled prices. This has led to resentment, public protests, and the destruction of cooperative property.[2] The Kremlin has responded by increasing its controls on cooperatives.

In an economy dominated by state control, consumers grow accustomed to mandated allocations of goods to local shops. The idea of suppliers having the freedom to desert traditional consumers to make more profitable sales elsewhere is considered intolerable. Not surprisingly, a number of Soviet republics have outlawed the shipment of goods beyond their borders by local enterprises.[3]

While unemployment may never be welcome, in a market economy the freedom of firms to lay off employees is tolerated because workers can relocate to where their skills have the greatest value. Unemployment is far more frightening in the Soviet Union because Soviet citizens cannot readily move—government directives rather than market wages play the most important role in allocating labor.

But even though it has recently become easier for Soviet citizens to receive political permission to relocate, their ability to do so is still extremely limited by a chronic housing shortage. The typical Soviet family considers itself lucky to have an apartment of 500 square feet, and it isn't uncommon for two families to share such an apartment. With long queues and political favoritism making it almost impossible for a family to obtain housing in another city, being laid off would be a genuine disaster for most Soviet workers. So in the absence of a free market in housing, there is little sympathy for the freedom of firms to lay off workers in response to changing market conditions. Yet such freedom is an essential feature of a market economy.

The Dilemma in Making the Transition to the Market

In the absence of a well-developed market economy, the fear the Soviets have of freedom is understandable. But this fear, and the reason for it, creates an agonizing dilemma for the Soviets as they attempt to make the transition from a socialist to a market economy. That dilemma can be stated simply: Tolerating freedom is difficult without market institutions, but developing market institutions is impossible without freedom.

The Soviet Union does not have the basic institutions required for the operation—and freedom—of a market economy. It lacks the type of banking system, legal structure, and commercial codes needed for the transactions and investment that are the lifeblood of the market. Neither does it have a stock market, which is essential for the rational allocation of capital formation that drives economic progress. These economic institutions, along with the political institutions of limited and

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Mikhail Gorbachev and Boris Yeltsin.

stable government, are crucial to the social infrastructure that must be in place if improvements in the physical infrastructure are to be developed and utilized effectively.

If it were possible to impose market institutions by government fiat, then the Soviet government would be able to create an economy in which its citizens could begin benefiting immediately from a full measure of economic freedom. Unfortunately, market institutions cannot simply be decreed by political authorities.[4] Market institutions have to emerge through a process of trial and error that requires time and freedom.[5] The creation and operation of a market economy is a spontaneous and evolving process that can emerge only from freedom; it cannot be replicated by central direction.

Furthermore, while no economy can prosper without a well-developed system of market institutions, there is no one model of a market economy appropriate for every country. Markets are cultural artifacts, and the specific forms of market institutions suitable to one market economy are not suitable to other market economies. So while the Soviet Union can benefit from the general example of the prosperous market economies, even if Soviet authorities could choose a set of market institutions as they now exist in another country and impose them from above, the results would be disappointing.

The unavoidable conclusion is that the transition from a socialist to a market economy is going to be painful for the Soviet Union. The freedom that is necessary if markets are to develop is disruptive until that development is considerably advanced.

While this conclusion can hardly appeal to those most optimistic about Soviet economic reform, it should not be taken as a counsel of despair. Freedom is always disruptive, even when disciplined by a well-developed market. And even in the absence of market institutions, freedom is productive over the long run because market institutions emerge from the exercise of freedom.

Economic progress always takes time. No economy has gone from poverty to prosperity overnight. All market economies progressed only over significant periods of time, and all did so through a process that was neither smooth nor painless. But they did progress. Market economies

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have progressed far beyond that which can ever be possible under socialism.

After almost 75 years of rigid socialist control, it is now clear to all but the most ideologically blinded that prosperity in the Soviet Union—or in the independent republics that once formed the Soviet Union—can only be achieved by economic freedom and the market economies that will emerge from that freedom. The enormous talent and creativity of the Soviet people leave no doubt that, given freedom, they will quickly begin making the economic progress that has been denied them for far too long.

Some Important Lessons

The first lesson to be drawn is that the major industrialized countries should not attempt to assist the Soviet Union with financial aid.[6] Indeed, foreign aid would more likely hinder rather than help the Soviet Union move to a free market. The benefits from making the transition far exceed the costs, but the benefits are a generation or more away while the costs are immediate and, for reasons already discussed, significant.

Mikhail Gorbachev and Boris Yeltsin, as with all politicians, are far more sensitive to immediate costs than to delayed benefits. By artificially propping up the flawed Soviet economy a little longer, such aid would let Soviet leaders continue to postpone granting the economic freedom required for genuine reform. Gorbachev has shown over six years of reluctance to start the painful process of moving to a market economy. He, or his successors, will start that process in earnest only when economic conditions deteriorate to the point where the temporary pain of freedom and reform is less than the permanent pain of the socialist status quo.

A second lesson is that, at a fundamental level, economic reform cannot be approached incrementally. The basic ingredient in reform is economic freedom, and the sooner the Soviet people are granted a full measure of that freedom the better. True, if a benevolently motivated government knew in advance exactly how particular freedoms would be used, then it might be possible for it gradually to permit more economic freedom in ways that allow for the benefits of freedom while minimizing the disruptions. But governments are seldom motivated by benevolence and never guided by omniscience.[7] So freedom has to be granted quickly and completely.

This is not to deny that economic change will be gradual. No matter how immediately or completely economic freedom is granted, the evolution of market institutions and the expansion of economic prosperity will take considerable time.[8] But to recognize that the progress of reform will be piecemeal is not to argue for gradualism on the part of government. The more clear and decisive the policy of economic freedom, the more difficult it will be for the apparatchiks, who continue to infest the huge Soviet bureaucracies and have a vested interest in the socialist status quo, to derail movement toward a market economy.

Another lesson is that the move to a market economy in the Soviet Union, or any other socialist country, is not primarily a task for government. There is little government can do to directly facilitate a transition from a socialistic to a market economy. Markets will arise as a result of the freedom that requires little more from government than getting out of the way of people attempting to better their conditions through productive activity. So even if the Soviet government could be depended upon to use foreign financial aid efficiently to promote the transition to a market-based economy, little, if any, financial aid would be required. The only financial infusions that can be depended upon to promote prosperity in the Soviet Union are private investments that will be forthcoming in significant amounts only when the Soviet government's economic role is greatly reduced and, as a consequence, market institutions and arrangements have been allowed to develop.

Conclusion

The most precious thing provided by a market economy is not an abundance of material wealth, but freedom. Those of us with the good fortune to spend our lives in market-based economies have difficulty appreciating our freedom because it is always difficult to appreciate advantages one has never had to do without. Few people who benefit from markets and freedom recognize how precious their freedom is, and fewer still are aware of how crucially their freedom depends upon the institutions of the marketplace. For this reason, it is difficult for people in market

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economies to understand the ambivalence toward freedom felt by those in socialist countries, such as the Soviet Union, and the severity of the problems faced in their attempt to move to a market economy.

There can be no doubt that the citizens of the Soviet Union desperately desire the freedoms that so many of us take for granted, as do the citizens of all repressive socialist regimes. Many Soviets have taken tremendous risks and made enormous sacrifices to escape the tyranny of their motherland and reach the freedom and opportunity of countries with established market economies.

Yet, at the same time, there is widespread reluctance by the Soviet people to accept significant increases in economic freedom within their own country. This cannot be understood unless one recognizes that the freedom so many of us take for granted is a freedom that is difficult to tolerate in the absence of market institutions. Lacking the institutions of the marketplace, it is impossible for the Soviets to immediately begin realizing the benefits from freedom available to those who live in market economies.

Unfortunately, acquiring the market institutions needed to discipline the exercise of freedom, thereby making it easy to tolerate, requires the exercise of freedom. The Soviets are understandably reluctant to allow freedom without workable markets, but the institutions required for workable markets can emerge only when freedom is allowed.

Overcoming this dilemma is not impossible, but neither is it easy. Making the transition to a market economy is going to be a disruptive and painful process for the Soviet Union. And there is little that can be done by other governments to facilitate the transition. Only when the Soviet government allows freedom, and the economic disruption that will initially go with it, can the process of moving toward a market economy begin in earnest in the Soviet Union. □

1. It should be acknowledged, however, that attitudes formed during several generations of socialism can be a barrier to a transition to a market economy. For example, James Buchanan argues, for reasons consistent with the thesis developed here, that the attitudes of Soviet citizens are such that they have a difficult time accepting much behavior that is standard in market economies. See James M. Buchanan, "Tacit Presuppositions of Political Economy: Implications for Societies in Transition," working paper. (Fairfax, Va.: Center for the Study of Public Choice, George Mason University, 1991).

2. Padma Desai, *Perestroika in Perspective: The Design and Dilemmas of Soviet Reform* (Princeton, N.J.: Princeton University Press, 1990), p. 156.

3. *Ibid.*, p. 170.

4. Even if it were possible for Soviet political authorities to impose workable market institutions, it would be naive to expect them to do so. Those with the greatest authority are those who have succeeded under the existing political and economic institutions. The changes occurring in the Soviet Union are not the result of an enlightened leadership dedicated to doing what is in the best long-run interest of Soviet citizens. Rather the changes are being forced on a leadership interested primarily in maintaining its power and perks by international economic forces that are relegating centrally planned economies to the ghettos of the global economy. See chapter 7 of Richard B. McKenzie and Dwight R. Lee, *Quicksilver Capital: How the Rapid Movement of Wealth Has Changed the World* (New York: Free Press, 1991). Also see, Gary M. Anderson and Peter J. Boettke, "Perestroika and Public Choice: The Economics of Autocratic Succession in a Rent-Seeking Society," working paper (Northridge, Calif.: Department of Economics, California State University, 1990).

5. For a useful discussion of the evolutionary process by which social institutions, such as those of the market, are created and reformed, see Karen I. Vaughn, "Can Democratic Society Reform Itself: The Limits of Constructive Change," in *For a Free Society in the Coming Decade: The N. Gotto Essay Prize Competition Winning Essays*, Mont Pelerin Society, 1982 General Meeting, Berlin. Although Vaughn's concern is with democracies, her discussion highlights important aspects of reform that apply to non-democratic societies.

6. In July 1991, at the G-7 conference in London, the seven major industrialized nations decided against giving the Soviet Union direct financial assistance. But the door was left open for consideration of future Soviet requests for financial aid. In the aftermath of the attempted coup, the pressure in the industrialized countries to give government aid to the Soviet Union has intensified.

7. And as Nobel prize winning economist Friedrich Hayek has informed us, "If we knew how freedom would be used, the case for it would largely disappear. We shall never get the benefits of freedom, never obtain those unforeseeable new developments for which it provides the opportunity, if it is not also granted where the uses made of it by some do not seem desirable.... It is because we do not know how individuals will use their freedom that it is so important." See F. A. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), p. 31.

8. In arguing against a "big bang" approach to Soviet economic reform, Padma Desai points out that "Even a 'big bang' policy of simultaneous and instant policy announcements will necessarily encounter reality, and the rate of effective *implementation* on different components of the package will diverge, yielding piecemeal reform." (emphasis in original) See Desai, *op. cit.*, p. 182.

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Puppets and Freedom in Czechoslovakia

by Doug Reardon

Alicia Souckova had a modest request to make when she marched through the impersonal hallways of the once all-powerful national committee of Prague's fifth district.

Little more than a year had passed since the revolution that ousted the Communist overseers of her country. For four decades their totalitarian state had dulled individuality and initiative, while alcohol sales helped deaden the system's failures. Those who still tried to rebel in 1968 had been crushed by Russian tanks.

The Communists' government and ideology had pervaded and attempted to control every aspect of Alicia's life. The national committee, the local state organ of self-serving party hacks and misdirected ideologues, had dictated where she could live with her daughter, when she could hope to have a telephone, and even what she could do for work.

Scarcely a year had passed since anyone who spoke out for freedom faced imprisonment, when Alicia resolutely appeared before the national committee in 1990.

Her request was modest. "I told them," Alicia smiled recently, "I want to make puppets."

Puppets. Three-headed green dragons, witches, and princesses.

If Alicia's request to the committee seems quaint, reflect also upon the courage required of her simply to declare her own freedom.

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The 26-year-old is a divorced mother who supports her 6-year-old daughter by herself. Alicia had a job in one of the innumerable state planning bureaucracies, a job where attendance was about the only requirement to receive her monthly salary. Yet she was determined to quit, to end dependence on the state and risk starting her own business making puppets.

And in many ways, Alicia's experiences are illustrative of the profound changes, perils, and future in Czechoslovakia. For in her dreams of selling puppets, one can see the struggles of a nation coming to terms with freedom.

The tentacles of totalitarian government extended deep into society in the decades that passed after the Communists seized power in 1948. But the interim government of democratic parties that took power after the so-called Velvet Revolution in November 1989 has begun to uproot the inefficient and corrupt organism created by the Communists. Under President Vaclav Havel, a Czech playwright and former dissident, the temporary government has pledged to establish a democratic constitutional government and to create a fundamentally free market economy.

Government's role remains far from limited in scope. Alicia still had to seek the approval of the national committee to begin her enterprise in 1990, and the committee continues to regulate a great deal (rents, allocation of flats, local public health care, etc.).

However, great progress has been made in curtailing the state's interference in people's

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lives. In the case of Alicia's business, the state committee's role was reduced to the collection of a fee to issue her a permit rather than the power to ban activity altogether.

Moreover, a great deal of attention is being paid to repairing the damage wrought on the country by the Communists' disrespect for private property. As elsewhere in the world, after the Communists gained power, they used state organs, police, courts, the legislature, and often brute force in the orchestrated theft of property. Further, the state denied citizens even their right to own property beyond the most basic commodities.

Prague bears witness to the disrepair and misuse of resources that inevitably result when people have only an indirect stake in their living quarters, and property has no correlation to value. Once beautiful single-family homes and elaborate buildings predating the Communist seizures are now run-down, battered, and sadly haunting. There is a cobbler, who earns less than $200 a month, occupying a state-owned store on Wenceslaus Square, the heart of a capital city with 1.2 million people. While the cobbler fiddles about on the valuable piece of prime real estate, nearby hotels, which rent rooms for nearly $200 each night, are turning away customers for lack of space.

Fortunately, significant reforms are taking place to restore the bulwark of private property to society. Every week since January 1991 there have been auctions where individuals can bid for hundreds of small businesses and shops now owned by the state. The auctions soon will be increased to twice a week, and eventually every day, as the privatization process picks up speed. Soon large scale state-owned firms also will be put on the auction block, and the bidding opened to foreign firms. The country also has embarked on the complicated and trying task of restoring to the rightful owners the property seized by the Communists after 1948.

Despite noteworthy efforts, there are ominous clouds threatening. The mandate of President Havel's interim government runs out this spring. The political prospects for the economic reforms are not clear. It is against these foreboding skies that tales of individual initiative, like Alicia's puppet business, shine forth with promise of a bright future.

Fear of accepting responsibility is one of the gravest legacies of the pervasive state control of life for two generations. Suddenly freed, many Czechoslovaks now are afraid to act as free men and women.

"They are deformed," Alicia said.

"Before people could just stay at their desks, and they always would have a job," she pointed out. "They don't have ideas. They know only to wait for what the government will say to them."

All but echoing Alicia's words, Vaclav Stevko, the union leader in a Czechoslovak arms factory, said in a recent interview, "We are willing to close down the defense industry . . . [but] somebody has to say what we shall do instead."

The defense industry exemplifies the quagmire of structural economic weakness and human dependency caused by the state. This legacy now threatens to slow down the transformation to a market economy and even to split the country.

Utterly impervious to the marketplace, Czechoslovakia's heavy industry was built up in the eastern, Slovak, region primarily to serve the Red Army and Warsaw Pact military alliance. Other industries developed in a similar fashion, namely, shielded from competition and driven by the whim of central planners.

Opposition to Reform

The economic reforms now pushed by the finance minister of the federal government, Vaclav Klaus, would force industries to stand on their feet in the marketplace. But there is considerable opposition to these reforms, especially in Slovakia. For example, Slovak officials estimate as many as 80,000 people would lose their jobs if arms production were to cease without a replacement.

Some politicians exploit fears of unemployment caused by the market-oriented reforms and rally Slovak nationalist sentiments for their own political gain, according to Vasil Hudak, a Czech specialist in political affairs at the Institute for East West Security Studies in Prague. Firebrand Slovak politicians like Vladimir Meciar have garnered substantial popular support by calling for greater independence from the federal government, even possible secession for the Slovak Republic, and by pledging to slow down the reforms. Meciar further promises to maintain a "social safety net" of income, housing, and health guarantees.

Decades of conditioning people to be depen-

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dents of the state are hard to overcome. Yet there is much to be optimistic about when people like Alicia have thrown off the yoke and declined the sugar cube of dependence on the state.

"It was quite hard in the beginning because it wasn't sure," said Alicia.

She reports the puppet business now is going great guns. In a week, she can make enough puppets in her home to sell in shops and earn twice her former monthly salary at her old job in the bureaucracy. Recently she hired an employee to help her on a part-time basis.

"Now everyone is afraid . . . they must change," she said while tying red ribbons around one of the necks on her smiling green dragons.

"But I like this," she said, adding with some pride, "I'm an entrepreneur."

Of course, puppets won't solve all of Czechoslovakia's problems. But the spirit of enterprise, of freedom, and of independence which can solve these problems, does exist. People like Alicia already are cutting the strings. □

Of Skunks and Salmon

by James A. Maccaro

Environmental bureaucrats are trying to regulate Mother Nature, with disastrous results.

In New Hampshire, state officials attempted to attract recreational fishermen by reducing the state's skunk population. For a while, the plan seemed to work because it alleviated vacationers' fears of encountering the odorous beasts. Soon, however, anglers noticed that the fish population also was shrinking, and decided to vacation in neighboring states with more plentiful stocks.

State planners later learned that skunks control the snapping turtle population by eating their eggs. Without the skunks, the turtle population of New Hampshire grew almost unchecked. The overabundant turtles, in turn, feasted on fish eggs and thus decimated the fish population. Eventually, New Hampshire officials had to import skunks to re-establish the natural balance.

Another attempt to improve on Mother Nature's work occurred in Montana, where the state introduced mysis shrimp into rivers to feed the salmon which flourished there. However, the tiny shrimp soon consumed large amounts of plankton, which is a major food source for salmon. As a result, the number of salmon spawning in Lake McDonald in Glacier National Park fell from 100,000 to a mere 200. Moreover, bald eagles, which were attracted to the park by the fish, now bypass it. From a peak of 639 in 1981, only 13 bald eagles were last counted in the park.

Because of the chain reaction started in a state bureaucrat's office, Glacier National Park has an abundance of minuscule shrimp, but few salmon and even fewer eagles. The park thus no longer attracts so many visitors, whose trips to the area to view the eagles greatly contributed to the local economy. From a peak of 46,000 tourists, only 1,000 visited during the 1990 fall season.

Government planners are no more successful in micro-managing the natural world than they are in regulating the economy. When government tries to correct perceived problems, it creates unforeseen results.

The economy, in common with the natural world, is not static. Thus, bureaucrats cannot tamper with it without creating imbalances in the overall system, whether the system be economic or ecological. The results will be counterproductive, whether the state attempts to control the level of wages and prices or of skunks and salmon. □

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Who Is a Self-Made Person?

by Tibor R. Machan

In the wake of Judge Clarence Thomas' nomination to the Supreme Court, some commentators challenged the idea of the self-made individual. Columnist Ellen Goodman, for example, rejected the idea that anyone is self-made, claiming: "The 'self' is an infinitely complex product. It's 'made' through an interaction of biology and environment, chances that come our way and those we take, coincidence and free will, reality and attitude." She proceeded to chide Americans because "we go on collectively nurturing people in the belief that they are self-reliant." Her conclusion? "The result of our lopsided view is that we end up living in a community that praises how little people need. We forget how much easier it is to grab hold of a bootstrap with a helping hand."

But surely no one who believes in self-reliance holds that people with a decent start in life aren't better off. What the idea of self-reliance means is that those who make the effort can take virtually any starting point and turn it into a success story.

No doubt, luck always has something to do with one's achievements in life, yet not so much as one might think. There are prerequisites for luck—the alertness and willingness to make the most of opportunities when they arise. The chances and coincidences the critics of self-reliance stress about human life are all subject to our management. If we make the effort, we can take advantage of these factors. But not everyone will make that effort and apply himself or herself to make the most of a situation. There are talented people who let their gifts go to waste. There are those who suffer handicaps but develop themselves to their greatest capacity and even turn a liability into an asset.

It is difficult to give concrete examples of such cases without writing a biography. Only such a detailed account can reveal whether a person has made the most of the opportunities, has avoided the hazards, has navigated the maze that one finds along life's path.

Not all the beautiful women and handsome men have the good sense and alertness to capitalize on their natural assets; not all those who have artistic, business, or scholarly talents are putting them to good use. What a self-made individual has done is to apply himself—keeping at the task of using his talents, seizing opportunities, and avoiding hazards.

Unfortunately, millions of others have chosen to abdicate and let others take care of them—especially the government, which claims that it can raise people out of poverty, cure the sick, educate the ignorant, and so forth, with minimal effort from the people involved. This image of people as victims is necessary for tyranny to flourish, be it of the petty variety we are experiencing in the United States or of the massive sort we find in Iran, Iraq, North Korea, and, for too long, throughout human history.

In a recent letter to *The New York Times*, a Soviet economist observed that what most ails his nation is the belief by too many of its people that they are helpless, in constant need of assistance from their intellectuals and politicians. At the same time, many American intellectuals want to reject the idea of the human individual as capable of making a personal project of his or her life. The idea of personal responsibility and initiative, in both cases, is the target.

But the idea of self-reliance is America's gift to the world, and is responsible for the enormous improvement in the lives of millions of people who have incorporated even a small portion of it into their thinking. One can only hope that those who reject this idea, who want to crush it before it gets any further play, do not succeed. □

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Philanthropy in a Cold Climate

by Peter Frumkin

Soviet Communists have long maintained that the needs of the people can be met only through the state. Now, however, this tenet has weakened, and a new breed of charitable organization is blossoming in cities across the Soviet Union.

American grant-makers have been heartened by the development of Soviet philanthropy. *Foundation News*, the magazine for American foundation professionals, trumpeted on its cover the optimistic headline, "Glasnost's Biggest Surprise: A Charitable Sector Is Born in Russia." Over the past two years, several groups of American grant-makers have organized tours of the Soviet Union.

Part of the reason that so much interest is being expressed in Soviet foundations stems from the fact that private philanthropy can be a powerful force for social change, one that—in the United States, at least—often differs radically in approach from government. In fact, philanthropy's private, non-governmental character is considered one of its greatest virtues. By standing outside the public sector, private philanthropy is free from the pressures of public opinion and can engage in experimental and controversial projects that government would never be able to undertake for legal or political reasons.

Because it is free to innovate, American philanthropy has brought competition to civic life. Leading by example, private philanthropy has taught government a lesson or two about what works and what doesn't in the area of social policy. Often, innovative private programs have proven more effective than similar programs run by government. And in many cases, the competition between public and private spheres has led to the wholesale re-evaluation of public policy.

Does Soviet philanthropy fulfill a similar role? Do Soviet grant-makers fund innovative programs? Are the new foundations really independent from government? To answer these questions, let's examine some of the major new players in Soviet philanthropy.

Philanthropy, Soviet Style

The cutting edge of Soviet-style philanthropy can be found on a shady street in Moscow's historic Arbat district. In offices paid for by Armand Hammer, stylish furniture from Stockholm and Apple computers from California abound. These plush surroundings are the headquarters of the International Foundation for the Survival and Development of Humanity, one of the most prominent of the new Soviet independent organizations.

What does the International Foundation aim to accomplish? Its lofty goals center on "the promotion of scientific, international projects and public activities aimed at joint efforts to enter the Twenty-first Century without the danger of nuclear war, in an atmosphere of mutual trust and understanding, and with a concern for the preservation of the environment and for the enhancement of the human condition." The foundation has an impressive international board of directors, including the Reverend Theodore Hesburgh, president emeritus of Notre Dame; Robert S. McNamara, former Secretary of Defense; and

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Jerome Wiesner, president emeritus of MIT. In many respects, however, the real moving force is board member Yevgeni Velikhov, vice president of the Soviet Academy of Sciences, who enjoys Mikhail Gorbachev's enthusiastic support.

After many delays, the International Foundation has begun to dispense funds. Among its earliest grants was 15,000 rubles to support the compilation and publication of a collection of essays from world literature on the subject of nonviolence. Other grants include a 100,000-ruble gift to fund joint American and Soviet studies of global climate change, and a 34,000-ruble contribution to permit the study of "topical problems in humanitarian ethics."

With its cooperative and global vision, the International Foundation is unable to spend its money studying domestic issues, such as the Soviet penal system or Soviet religious life. When board member Andrei Sakharov suggested that such domestic concerns should be included in the foundation's agenda, his idea was rejected by the other board members.

Like most new organizations in the Soviet Union, the International Foundation operates without an endowment. The foundation raises money in both rubles and hard currency and gives it away without seeking to build up a large reserve fund. This mode of operation is dictated partly because Soviet banks pay very low interest rates and partly because the funds trickle in little by little rather than arriving in the form of one large donation.

Yet there are exceptions: The Foundation for Social Inventions has 8 million rubles in the bank. Founded by Gennady Alfrenko, a special correspondent of *Komsomolskaya Pravda*, the foundation operates as an incubator and funder of ideas that have social implications. Alfrenko solicits ideas and donations in his *Pravda* column and then makes grants to those applicants whose projects have the greatest potential.

Alfrenko receives over 100 letters a day from his readers, yet he operates the foundation alone. Projects for which funds have been solicited by Alfrenko include the Samantha Project, named in memory of the famed child diplomat Samantha Smith who sought to promote East-West dialogue. The plea that ran in *Pravda* read in part:

> Death did not stop Samantha's heart. It beats in the breasts of millions of her contemporaries. For them, Samantha is still alive—they have not acknowledged her death. They carry on Samantha's cause, the struggle for the continued existence of this planet. They preserve Samantha's truth: War will never originate in the land of the Soviets.
>
> The Samantha Project should join together our youthful fighters for peace, child internationalists. The Project's tasks are to acquaint foreign children with life in our country, with our country's love of peace. Our children will become guides for our guests. To do this they must have a profound knowledge of our people and of our history. By studying these, our Soviet children will have an intensified patriotic, international education. Each contribution to the Project's bank account must be accompanied by a description of how the money was earned.

Not all of the new Soviet philanthropies are so unabashedly politicized. For those in the Soviet Union who have a taste for the arts, there is the new Soviet Cultural Foundation. Its primary mission is to protect and restore architectural monuments within the Soviet Union. It also tries to bring back to the motherland important Soviet works of art located abroad. The foundation thus seeks to act as a kind of national trust for historic preservation.

The Soviet-American Foundation Cultural Initiative has an agenda that is as vague as it is ambitious. Founded by the Hungarian-born millionaire George Soros with a $3 million grant, the Cultural Initiative has set as its goal the promotion of culture, construed broadly to include not only art and literature, but also the sciences, education, and medicine. The Cultural Initiative is a grant-making body that has dollars as well as rubles to dispense. Like its American counterparts, the foundation has a board of directors that reviews grant proposals and allocates funds.

Because it was founded by a foreign financier, the foundation has strict standards for accountability and openness. And yet the very fact that a foreigner is involved in philanthropy within the Soviet Union has raised some eyebrows. Soros has tried to make clear his motives for getting involved in philanthropy in the USSR: "I wanted to be personally involved in promoting openness and independence in Soviet culture. Being a businessman, I have a realistic view of things and I know that in the Soviet Union every dollar matters, so I can use my money

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more effectively here than in the U.S. where everything is much more expensive."

While Soros' concern about independence and openness is healthy, it extends only to the hard currency side of the Cultural Initiative. For while Soros donated several million dollars, the foundation also received a sizable contribution in rubles from the Soviet Peace Fund, a public organization set up in 1961, that in 1987 received 273 million rubles in "donations" from Soviet worker collectives and individual citizens.

Even if these organizations are less than fully independent of the Soviet government, it is important to remember that Soros, Velikhov of the International Foundation, Alfrenko of the Foundation for Social Inventions, as well as many others involved in Soviet philanthropy, are pioneers of sorts. After all, the Communists until recently dismissed charity as a form of bourgeois trickery designed to get the proletariat to postpone class struggle and revolution.

Then and Now

New Soviet scholarship on philanthropy clearly documents the changing perception of charity. Vitali Tretyakov, deputy editor of *Moscow News*, is the author of a monograph on the topic, *Philanthropy in Soviet Society*, published in 1990 by Novosti. To demonstrate how far the Soviet Union has come, Tretyakov describes how the definitions of the words "philanthropy" and "charity" have changed over the years. In the *Concise Dictionary of Foreign Words*, published in 1950, philanthropy is defined as follows:

> PHILANTHROPY. Charity; a means the bourgeoisie uses to deceive workers and disguise parasitism and its exploiter's face by rendering hypocritical, humiliating aid to the poor in order to distract the latter from class struggle.

The 5th volume of the second edition of the *Great Soviet Encyclopedia*, also published in 1950, defines charity in similar terms:

> CHARITY. Aid hypocritically rendered by representatives of the ruling class in an exploiter society to a part of the poor population in order to deceive the workers and divert them from class struggle.

Tretyakov notes that the contempt of earlier generations is no longer to be found by 1987 in Sergei Ozhegov's *Dictionary of the Russian Language*:

> PHILANTHROPY. Bourgeois charity, aid to and protection of the poor.
> CHARITY. In bourgeois society: generosity of private individuals in giving to the needy.

While philanthropy and charity are still defined as phenomena found only in a class society, Tretyakov believes that the progress in Soviet attitudes toward charity is important. And, in some respects, he is right. Attitudes are changing—now all that is needed are concrete actions.

The most crucial task is to draw clear lines between the public and private spheres. Many of the most important Soviet foundations that purport to be independent, non-governmental organizations are in fact connected in one way or another to the government: Some have public officials on their boards, others operate with funds that come directly or indirectly from the state.

All the while, the number of smaller, less well-funded independent charitable groups within the Soviet Union continues to rise. Since many, if not all, of these organizations are trying to raise money from Soviet citizens, it is almost certain that a fund-raising industry will soon develop in the USSR. And while such a development may lead in the short run to an increase in charitable giving in the Soviet Union, it also will bode well in the long run for the cause of freedom. For once Soviet citizens realize that their savings can be put to useful private purposes, effective alternatives to government programs may become more clear.

What can be done to promote the development of philanthropies in the USSR that are truly independent from government? Most important, American policy-makers, foundation directors, and educators—to whom leaders in the Soviet charity movement look for advice and guidance— must hold the new Soviet foundations to a rigorous standard when it comes to their autonomy. The new Soviet foundations must distance themselves from the state while defining for themselves a mission in Soviet society that justifies the term "independent sector."

If such steps are taken, the Soviet Union might eventually become hospitable to those habits of the heart that are so intimately connected to individual freedom. For the moment, however, an authentic independent philanthropic sector is only a distant aspiration for the Soviet people. □

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Rustic, U.S.A.

by T. Franklin Harris, Jr.

There is a lot of talk nowadays about democracy. Everywhere it seems that democracy and freedom are regarded as one and the same. Even further, there are the constant rantings about "economic democracy." It is very disconcerting to classical liberals like myself to see democracy equated with freedom. Unbridled democracy is just as tyrannical as any dictator or king. The bloody past of ancient Greece serves as proof of this fact. So, whenever I am confronted with someone who thinks democracy and freedom are synonymous, I tell them the story of my hometown, which I shall call Rustic, U.S.A.

Every few years a group of citizens in Rustic starts a petition asking for a referendum to legalize the sale of alcoholic beverages within the city limits. Alcohol sales in Rustic have been illegal since before Prohibition. The result has been a lack of nightlife and a small bootlegging industry in which a number of local officials have allegedly been involved.

As the petition asking for the referendum circulates, the forces opposing legal alcohol sales mobilize. Concerned townsfolk band together—making speeches, buying newspaper and radio advertisements—all in an attempt to prevent Rustic from being transformed into a "den of iniquity."

The war of words between the opposing sides escalates until the day of the referendum. After much wailing and gnashing of teeth, the proposal to allow for legal alcoholic beverage sales is invariably defeated, just like the last time. The voter turnout is invariably larger than for Presidential elections. Witness democracy in action. Once again democracy has trampled over individual freedom—or, as P. J. O'Rourke recently put it: "We [have used] our suffrage to steal a fellow citizen's property rights."

The majority of the citizens in Rustic, if asked, will display great disdain for intellectuals. Consequently, most aren't interested in the philosophical arguments that distinguish between true freedom and mere political freedom—that is, the right to vote. They don't see the great contradiction in choosing as a group to take away the right of individuals to choose.

Buying alcoholic beverages, like purchasing any product, is a matter of voluntary choice. A person enters a package store of his or her own free will and exchanges currency for liquor. No force is involved. No one puts a gun to the buyer's head.

Conversely, the owner of the store voluntarily went into business. He or she freely chooses to exchange a product for money. There is no threat of harm, physical or otherwise.

Furthermore, those who wish neither to buy nor sell liquor are free to refrain with no threat of punitive action. There is a reason why this process is known as the "free" market. All the participants, and even the nonparticipants, are, to use Milton Friedman's phrase, free to choose.

Economic democracy, the subjection of voluntary transactions to the political process (of which the Rustic referendum is only a small example), robs people of freedom. The majority of the voters in Rustic decided to strip everyone, including themselves, of the freedom to engage in whatever type of commerce they want so long as they

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respect the unalienable rights to life, liberty, and property of their fellow citizens.

This is not to say that the people who opposed the legalized sale of alcohol don't speak of rights. Quite the contrary, they are always bringing up the "right" of the community to set standards.

But communities are not organic creatures as some would have us believe. There is no such thing as a single set of community beliefs. Fundamentally, a community is nothing but a collection of individuals, each with his or her own set of beliefs, and consequently, standards. As such, the community itself has no rights. There are only the rights of the individual members. Thomas Jefferson did *not* write that all *communities* "are endowed by their creator with certain unalienable rights."

Democracy is no way to run a government, which is why the Founding Fathers seldom used the word "democracy." The United States was founded as a republic, with elected representatives governing within the limited confines of the Constitution. It wasn't until the rise of Populism and Woodrow Wilson's declaration that the United States should "make the world safe for democracy" that the unalienable rights of individuals took a back seat to simple majoritarian rule. Prohibition, if you remember, was part of the Populist agenda.

The great problem with unlimited political democracy is its tendency to spill over into the economic realm. The United States is openly encouraging the creation of free markets in Eastern Europe, but the East Europeans seem to be drifting toward economic democracy. However, this isn't surprising given that the U.S. is their model of a free market. Economic democracy in America is not confined to simple wet/dry referendums. Voters and their representatives regulate everything they can get their red tape on.

The Last Laugh

To illustrate the absurdity of economic democracy, even on a small scale, allow me to relate my own experience with the Rustic referendum.

I was 18 years old and exercising my right of suffrage for the first time. I am proud to claim fellowship with the few people who went down to defeat that day by voting for legal liquor sales. It was a moral victory at least.

As I left the polling place, I thought about what I had done. By voting I was exercising awesome

power, made all the more awesome by the fact that the Constitutional restraints on government power are continually being chipped away. This is the same power that Alexis de Tocqueville warned us about over a century ago—the same power that sentenced Socrates to death.

At the age of 18, I was entrusted with the power to control the lives of other people. This is a power that society, in its democratic wisdom, thinks I am ready for. And yet, even if the referendum had passed, I, being under the age of 21, wouldn't have been allowed to take advantage of it. I was below the legal drinking age!

This is the cruel joke of "economic democracy": It presumes to say that people can make decisions for others, yet are incapable of making decisions for themselves.

The joke has been played on the people of Rustic, on the people of the United States, and on the people of the world. Instead of making the world safe for democracy, as President Wilson said, it seems we must make the world safe *from* democracy.

Yes, the joke has been told the world over, and nobody appears to be laughing.

It's enough to drive one to drink. □

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Not Up to Snuff

by Evelyn Pyburn

I lived most of my early life in housing that any regulator or housing administrator would have razed upon sight. I would have been viewed as a victim of inadequate housing even though my family and I had no idea we were so seriously deprived.

In my ignorance I would suggest that the days spent in such housing were among the best of my life.

We lived in an original homestead house—only slightly revised over the years—on a farm way out in the hills of Montana. Not until I was about 8 or 9 did they even run electricity to the property.

Oh, yes, there was an outhouse. My brothers and I carried wood and watched my grandmother and mother cook on a wood-burning stove. Among our daily chores was to pump water from the well and carry it into the house. I have never found water that tasted as good, as cold or sweet.

I remember watching my grandparents play dominoes by lantern light—my eyes so tired I could hardly keep them open, only to fall asleep at the table and find in the morning that someone had carried me to bed.

Early on winter mornings, Grandpa would let me sit on his lap with my bare feet dangling in front of the open oven of the kitchen stove, as the first fire of the day began warming the house.

Sometimes little drifts of snow could be found piled delicately on the window sill in the living room. The house whistled, moaned, and howled when a fierce wind blew; and the rain pattered musically on the roof.

Some bats lived in the roof near the chimney. Their occasional squeaking was nothing more than household background sounds, and we would watch them fly about in the summer evening sky. As a child it never occurred to me that there might be houses without bats.

Changes came with time. First electricity, and then one day the gas line was brought through. Running water was put in. And then the day came when my family actually built a new house.

When the old homestead house was burned (taxes on it were astronomical)—we, grown children, watched sadly with tears in our eyes.

No doubt about it, I was thoroughly deprived as a child, and I wouldn't trade a moment of it for the fanciest and most lavish house in the world.

None of that fits into the regulators' books, however, and most would never comprehend how I could have grown up feeling sorry for everyone else because they didn't have what I had.

How greatly my view of the world differed from so many others never dawned upon me, until one day, as a reporter, I was interviewing a newly named housing expert. He started rattling off the numbers of substandard homes that existed in Gallatin, Meagher, and Park Counties. As I put the numbers into perspective, I realized that he was talking about a lot of homes. I knew all those communities well and I couldn't visualize that many substandard houses. So I was prompted to ask exactly what constituted a "substandard home" in his book.

As he began describing the government's broad criteria for substandard housing, I was, at first, astonished and then began to smolder, as I realized he was calling every home I had ever lived in "substandard." Not only mine, but that of almost every one I had ever known in our rural community and probably most of the homes that comprised all the small towns roundabout.

I still think of all those hard-working, proud people, and how affronted they would feel had they any idea that what they worked so hard for, and loved so dearly, was offhandedly categorized as "substandard" by a bureaucrat who lived in an urban ticky-tacky without the slightest idea of what it took to acquire and maintain that old homestead of my grandparents. □

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BOOKS

THE EMERGING BRITISH UNDERCLASS
by Charles Murray
London: The Institute of Economic Affairs; available from Laissez Faire Books, 942 Howard Street, San Francisco, CA 94103 ◦ 1990 ◦ 96 pages ◦ $9.95 paper

Reviewed by William H. Peterson

In extending our charity we must endeavor to distinguish the really deserving; for those who willingly and professionally seek the charity of others forfeit all self-respect, and, in being content so to live, sacrifice personal dignity.

—MANCHESTER UNITY (British charitable organization), 1938

In 1984 Charles Murray published *Losing Ground*, an indictment of America's welfare state. In that book Murray offered statistical proof on the counterproductivity of social engineering and relief measures such as Aid to Families with Dependent Children—that on balance and over time public welfare compounds rather than relieves social despair and destitution. An underclass emerges, persists, grows from one generation to another, with all manner of perverse repercussions.

Now Murray follows up his American analysis with a pared-down study of the British welfare experience and comes up with a similar finding —the rise of a British underclass, the growth of a culture of poverty, of what I call "the professional poor": those who forgo livelihoods and openly feed at the public trough as a way of life.

Here he is careful to differentiate between the British poor and the underclass. The Bible observes that the poor shall be "always with you." Similarly, Murray sees that some people will ever be at the bottom, that a bottom in any statistical vertical range of incomes has to occur by definition, that the dynamics of life, history, and economics will necessarily shuffle incomes up and down, that some historians have a point in noting a cycle "from shirt-sleeves to shirt-sleeves in three generations."

The subsidized underclass is something else. So what gives this latest Murray study special bite is not just his seeing that the underclass is swelling in England, but his observation that three British phenomena which have turned out to be early-warning signals for the American underclass are being insufficiently recognized. This is evident in commentaries by four British sociologists (one of whom is a Labour Member of Parliament) which are included in this volume. The three phenomena are: illegitimacy, violent crime, and labor-force dropouts.

Illegitimacy has escalated in Britain—from 5.1 percent of births to single women as a percentage of all births in 1958 to 25.6 percent in 1988, a five-fold increase in just 30 years. This rising illegitimacy is strikingly concentrated in the underclass, in communities without fathers in the traditional sense. The fewer the fathers, argues Murray, the greater the tendency of children to "run wild," to abandon schooling and employment, or to become criminals.

Naturally enough, crime also escalates— from 27 crimes of violence per 100,000 population in 1958 to 314 in 1988, with again the preponderance of that crime concentrated in the slum neighborhoods, in males in the second half of their teens.

So school and labor-force dropouts are also on the rise. For to many in the British underclass, work is an aversion. Murray relates an illustrative anecdote. Recently contractors carrying out extensive renovations in a British low-income housing project were obliged to hire local youths for unskilled labor as part of a legislated work-experience program. Thirteen youths were hired. Ten actually showed up on the first day. By the end of the week, only one was still at work.

What Murray is describing is a vicious circle. He sees these social problems as interconnected, as reinforcing one another, with both the dole and drug abuse increasing significantly. He writes:

> Young men who are subsisting in crime or the dole are not likely to be trustworthy providers, which makes having a baby without a husband a more practical alternative. If a young man's girl friend doesn't need him to help support the baby, it makes less sense for him to plug away at a menial job and more sense to have some fun—which in turn makes hustling and crime more attractive, marriage less attractive. Without a job or family to give life meaning, drugs

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become that much more valuable as a means of distraction.

Not a pretty picture in Britain. Nor in America. So what to do? In this first-rate study Dr. Murray pleads for central governments in London, Washington, and elsewhere to get out of the way, to return to "authentic self-governing communities" that reward responsibility and stigmatize irresponsibility.

What he is really saying, I think, is that the West has to return to first principles, to basic values such as self-accountability, self-worth, *private* charities, marriage, families, limited government, private property, the sovereignty of the individual. Social engineering is an oxymoron. The welfare state everywhere is bankrupt. □

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PROSPECTS FOR GROWTH: A BIBLICAL VIEW OF POPULATION, RESOURCES, AND THE FUTURE

by E. Calvin Beisner

Crossway Books, 9825 West Roosevelt Road, Westchester, IL 60154 • 1990 • 282 pages • $9.95 paper

Reviewed by Doug Bandow

Although collectivism has ignominiously collapsed not only in Eastern Europe but in the Soviet Union as well, it survives in America among environmentalists and within the church. There may, indeed, be no area where theological thinking is more muddled than the environment, with the emergence of pantheism with a Christian gloss.

That people are concerned about the environment is hardly surprising. The popular image is one of impending disaster. Writes E. Calvin Beisner:

> This poor world. It's overpopulated. Exploited. Polluted. Unorganized. Nothing short of radical and stringent new measures will prevent catastrophes. Left to themselves, people . . . breed mindlessly, multiplying geometrically to their own destruction. They rape the earth, stripping it of its resources, leaving nothing for future generations. They poison air, water, and land, heedless of their own safety.

So runs the conventional wisdom. Although powerful critics of this apocalyptic view—Kent Jeffreys, Julian Simon, Fred Singer, Fred Smith, and R. J. Smith, among others—have not been silent, none of them has really spoken to America's religious community. Happily, Beisner, a prolific writer from Pea Ridge, Arkansas, has helped fill the void. *Prospects for Growth* provides a welcome antidote for both the doomsayers who would wreck the economy and the tree-huggers who would have us worship the earth.

In Beisner's view, the most fundamental problem is theological: "Theology, in all its departments, supplies the guiding principles by which to answer all the pragmatic problems of political economy." God has created the earth and given man dominion over it. He is to act as steward, "to cultivate it and keep it." (Genesis 2:15) Exactly how we are to do so is not spelled out in Scripture, however, so Beisner moves on to what he calls the "foundational principles of civil government and economics." His conclusion is that freedom is better than statism: "the free market excels over the controlled market in regard to both Biblical ethics and productivity."

After laying this basic groundwork for assessing environmental problems, Beisner turns to specific issues. He begins with the lurid predictions of deadly overpopulation, which he rightly dismisses for being fanciful. "In fanning the flames of the population scare, statistics are more misleading than fun." He shows that the United States and the world are not overcrowded and that predictions of certain doom in the future don't take into account the behavioral changes and technological developments that will inevitably occur. He concludes that "what we learn from history is that over the long haul and on the average, per-capita health, economic well-being, and psychological well-being tend to improve faster than population grows."

Beisner backs up this assertion with separate chapters on population and both living standards and economic growth. He is particularly adept at demolishing the 18th-century Malthusian view that continues to dominate the thinking of such scaremongers as Stanford's Paul Ehrlich, whose erroneous predictions of mass famine in the 1970s haven't stopped him from making new doomsday forecasts for the future. In sum, Beisner writes:

> . . . population growth yields short-term losses

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but long-term gains. . . . Over their lifetimes, people tend to produce more than they consume; higher population density makes possible greater economic efficiencies from division of labor, economies of scale, and capital application; more people mean more and faster increases in knowledge and its application through discovery, innovation, and invention. These long-term benefits of population growth so far outweigh the short-term costs that economic production has consistently outgrown population. There is no reason to think this trend has ended or will end in the foreseeable future.

Equally trenchant is his discussion of natural resources. Improved productivity and continuing innovation—leading to both substitution of one substance for another and transformation of economic processes altogether—have resulted in what he calls "multiplying returns" from resources. As a result, natural resources are actually becoming more abundant. This fact is reflected in the steady increase in the estimated reserves of everything from copper to oil to zinc; between 1985 and 1990 alone proven international petroleum reserves jumped by *400 billion barrels*. Moreover, resource prices have been consistently falling.

Finally, Beisner takes on the myriad of environmental "problems" that are said to beset us. Although he acknowledges that pollution is a legitimate issue, he finds that the environment has been getting cleaner, not dirtier. And, relying on the latest scientific evidence, he debunks some of the most outrageous scaremongering, particularly acid rain, ozone depletion, radon, and global warming.

All in all, he concludes, we need to defend the "paramount principles" of "life, liberty, and property." The practical reasons are obvious enough: "To the extent that life, liberty, and property are protected, economic growth will abound; to the extent that they are undermined, economic growth will subside or even reverse," he writes. But even more important is the moral dimension. For "in the final analysis, government planning—whether of population, resource use, or the economy—amounts to nothing but brute force." And that, he explains, violates "the Biblical principle of liberty." □

Doug Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Plunder: Misgovernment in Washington.

QUICKSILVER CAPITAL: HOW THE RAPID MOVEMENT OF WEALTH HAS CHANGED THE WORLD

by Richard B. McKenzie and Dwight R. Lee

The Free Press, 866 Third Avenue, New York, NY 10022
1991 • 315 pages • $24.95 cloth

Reviewed by Gary M. Galles

The effects of taxation (or regulation, which is taxation in disguise) can be understood by analogy to the children's game of dodge ball. In search of revenues, governments throw various types of taxes at their citizens. Those who can relatively easily dodge the tax burden by changing their behavior (e.g., through moving their assets, exploiting tax loopholes, or entering the underground economy) aren't hit very hard or often, making them poor targets for taxation. Those who find it difficult to dodge because such behavioral changes are more costly (e.g., producers with large existing physical plants, which are difficult to relocate) are tempting taxation targets, and can become seriously bruised as increased taxes fuel the growth of government at their expense. These citizens would like to be able to switch over to a less taxing game of dodge ball run by some other government, if only they could move at a low enough cost.

The central argument of *Quicksilver Capital* is that technological changes are dramatically tilting the game of tax dodge ball in favor of the dodgers, by making capital in all forms more mobile, which limits the power of governments to tax citizens without giving them sufficiently valued services in return. "As a consequence, governments have lost much of the monopoly power that undergirded their growth in earlier decades. . . . governments have had to compete against one another by seeking more efficient policies in order to retain the physical and human capital that is now so crucial to modern production processes and to the tax bases on which governments depend." The optimistic upshot is that the myriad of inefficient government policies are beginning to shrink away, and with them burdens on the governed. Attempts to act otherwise are becoming self-defeating, quickly driving the "quicksilver" tax base away to more hospitable shores.

McKenzie and Lee begin by delineating the changes in technology, particularly the quantum

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leaps in computer sophistication and the consequent reduced scales of efficient production, that drive their premise that capital is being transformed from political captive to quicksilver. Then they demonstrate the growing international integration of goods, services, and capital markets that is consistent with their mobility argument, followed by what seems to be every piece of domestic and international evidence on government expenditures, reduced tax rates, regulations, and privatization that supports their hypothesis. Throughout, they reiterate the power of increasing capital mobility to reshape the fiscal world by taking power from government, and the often dramatic differences between their interpretation and policy prescriptions and the more pessimistic ones of others.

The book is well written for lay audiences, and anyone not already well informed on these issues could hardly fail to learn something. (Though beyond their description of the technological tidal wave taking place, little new will be found by those well versed in the field. The authors' 1987 book *Regulating Government*, excerpted in the February 1987 *Freeman*, does a better job in dealing with many of the growth-of-government issues.) However, despite a plausible argument that is highly attractive—implying a declining scope for government in areas where it had no business in the first place—their conclusion that we are headed for a world of Slim-Fast governments is ultimately unconvincing.

The biggest problem with their argument that capital's ability to move to other locations is putting government on a diet is that such a strong claim is not clearly consistent with the evidence. For instance, despite repeated claims of the power of their quicksilver capital insight to change the world, the authors themselves back away from such assertions to the much more modest conclusion that "We have only argued that greater capital mobility and production sophistication have constrained the growth of governments. Though there is a good chance that governments will actually start contracting on many fronts, the prospects of that outcome are uncertain. To date, the evidence only supports constrained growth relative to national income."

If the only solid evidence they can muster to support their hypothesis is that governments are growing more slowly than they used to, much of their presentation needs tempering. (If a 600-pound man goes from gaining three pounds a week to "only" two pounds a week, we won't soon be calling him "Slim.") This evidence seems far more consistent with increased capital mobility being one influence constraining governments, but not the dominant one. The reductions in the highest marginal tax rates they cite, similarly, seem more consistent with undoing previous tax rates so high that countries were "around the bend" on the Laffer curve of high-income citizens, thereby losing tax revenues, than with a reduction in the size of government because capital is becoming more mobile.

Also seemingly inconsistent with the argument that capital can easily move to avoid taxation, leading government to tax it more lightly, is the tax treatment of capital in the United States in recent years. Capital gains and corporate taxes have risen dramatically, alternative minimum taxes have been imposed, state and local business levies have jumped, and property tax increases have been limited more by populist political rebellion than by capital migration. It seems that either capital is less mobile than McKenzie and Lee maintain, sharply restricting the power of their entire argument, or that the well-known short-sighted bias of governments is leading them to sacrifice possible future gains from attracting as yet uninvested capital in favor of exploiting the large stock of already sited, "captive" physical capital. (Remember that even if one tries to sell such capital and leave, greater government exactions will be capitalized into lower sales prices, making avoiding such burdens quite difficult.) In addition, the market restrictions and other favors of interest-group politics, which, according to their argument, should have been reduced, hardly have been dying out.

My overall evaluation of the book is best summed up by Nobel prize winner James Buchanan's dust jacket comment that "Their arguments [of reduced monopoly power of governments everywhere] are surely convincing, up to a point. But I shall keep my fingers crossed, and I shall advise all classical liberals to keep their rhetorical powder dry." Their analysis is plausible, and there is hope that increasingly mobile capital will become a greater constraint on the power of government in our lives. However, any substantial reduction in governmental power will wait until more people realize that organizing individuals through the coercive power of government rather

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than through the voluntary cooperation of markets seldom generates more valuable information, creates more wisdom, or produces better incentives for decision-makers to promote the well-being of others. Too few citizens have thought about these issues carefully enough to understand how small the list of logically defensible roles for government is. What is needed is straight thinking in this area, because so long as people believe in ever more roles for government, government will grow. □

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LIBERTY OF CONSCIENCE: ROGER WILLIAMS IN AMERICA
by Edwin S. Gaustad
William B. Eerdmans Company, 225 Jefferson Avenue SE, Grand Rapids, MI 49503 ◦ 1991 • 229 pages • $14.95 paper

Reviewed by Russell Shannon

By and large, immigrants to the United States have been attracted by economic opportunities. Yet, in the early colonial days, North America was primarily a refuge from religious oppression. In fact, many who came to these shores quite literally *escaped*, most notably the Pilgrims, who fled the English government of James I, a Christian king as determined to prevent emigration to avoid inhospitable policies as the modern Communist regimes controlling the vast areas of China and the Soviet Union.

Nonetheless, many colonial governments commanded as much religious conformity as the regimes the settlers had abandoned. As a result, some settlers felt so stifled, or caused such discontent, that they were forced to flee even farther. Among these was Roger Williams, whose story is masterfully told in a new biography by Edwin S. Gaustad.

By the time Williams, a graduate of Cambridge and a private chaplain to a Puritan leader, left for America with his wife in 1630, Charles I was king, and colonization was being encouraged rather than thwarted. But once established in his new homeland, Williams almost immediately found himself at odds with most other Massachusetts settlers on two issues.

First, he believed that the Ten Commandments should be considered not the basis of civil law, but, rather, as guides to individual behavior. In his view, civil authorities should have no jurisdiction over essentially spiritual matters. Dismayed at prevailing practices, Williams drew a sharp distinction between "Christianity," which drew directly on the teachings and principles of Jesus, and "Christendom," which for him involved what Gaustad calls "a polluting mixture of politics with religion."

In his prolific writings, Williams pointed out that England, in the last century or so, had passed through a variety of theocracies, both Catholic and Protestant, each proclaiming divine sanction and each requiring a religious conformity that Williams bluntly termed "spiritual rape." Human reason suggested to Williams, in Gaustad's words, "that coercing one religion upon all is like making one suit of clothing for everyone to wear, one size of shoe to fit every foot." Such rigidity, Williams pointed out, had perverse practical consequences, for it adversely affected the economic climate. As he noted, after the Dutch abandoned religious persecution, Amsterdam prospered because of the energetic people it attracted.

For expressing his radical views, Williams was forced to leave Massachusetts. With some friends and supporters, he established a settlement at Providence, in what is now Rhode Island. However, things didn't go much better there, because the people who joined him were not only religious individualists but also political individualists, frustrating efforts to raise taxes and provide for the common defense. (It should be recalled that this independence endured: Rhode Island was the last of the 13 original colonies to ratify the Constitution.) Further, there was constant conflict with both Massachusetts and the new settlements in Connecticut over land rights, forcing Williams to spend much time, at his own expense, in England trying to resolve the disputes.

It was in the matter of land rights that Williams found a second profound disagreement with many of his fellow settlers. He flatly denied that the English king had the right to dispose of land held by the peoples referred to as Indians. Instead, he insisted that the settlers should pay these prior inhabitants. Because of such views, Williams got along well with the Indians, considering them in many respects more civil and courteous than people from his native land. He set up

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a successful trading post and bargained with the Indians for the land he sought. Nevertheless, despite Williams' intense efforts at establishing amicable relationships, conflicts between the settlers and the natives eventually erupted in horrible bloodshed.

Yet Williams left his mark. Clearly his beliefs, though controversial at the time, lie at the very heart of our more modern concepts of liberty and property. In the last part of his book Gaustad traces the evolution and impact of these views. In his own time, Williams shared ideas with John Milton. These ideas were the predecessors of the political beliefs of John Locke, not to mention the expressions of religious freedom later espoused by James Madison and Thomas Jefferson.

In more recent times, Gaustad points out, in the 1967 Supreme Court decision that prohibited state-mandated prayers in New York public schools, Roger Williams is noted in a favorable footnote reference: It is in part from Williams that we derive the notion that the state should not dictate our prayers. However, Gaustad expresses alarm at more recent Supreme Court decisions, in which some justices, most prominently William Rehnquist, have expressly repudiated the principles so brilliantly asserted by Williams, Jefferson, and Madison.

In the spirit of Roger Williams, Gaustad concludes with a somber warning: "Religion has the power to persuade, never the power to compel. Government does have the power to compel, but that government is wisest and best which offers to liberty of conscience its widest possible range." □

Professor Shannon teaches in the Economics Department, Clemson University.

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